Government of Canada Gouvernement du Canada

Receiver General for Canada
Hon. Monique Vézina

ublic accounts of canada

1986

Volume III

The President of the Treasury Board :

Annual Report to Parliament on Crown Corporations and other Corporate Interests of Canada

Canada

Available in Canada through

Associated Bookstores
and other booksellers

or by mail from

Canadian Government Publishing Centre
Supply and Services Canada
Ottawa, Canada K1A 0S9

Catalogue No. P51-1/1986-3E — Canada: $17.30

ISBN 0-660-12168-9 — Other Countries: $20.75

Price subject to change without notice

Government of Canada
Gouvernement du Canada

Receiver General for Canada
Hon. Monique Vézina

public accounts of canada

1986

Volume III

The President of the Treasury Board :

Annual Report to Parliament on Crown Corporations and other Corporate Interests of Canada

Canada

INTRODUCTION TO THE PUBLIC ACCOUNTS

Nature of the Public Accounts

The Public Accounts is the report of the Government of Canada prepared each fiscal year by the Receiver General as required by Section 55 of the Financial Administration Act.

The report covers the fiscal year of the Government, which ends on March 31, and is prepared from data contained in the accounts of Canada and from more detailed records maintained in departments and agencies. The accounts of Canada is the centralized record of the Government's financial transactions maintained by the Receiver General in which the transactions of all departments and agencies are summarized. Each department and agency is responsible for agreeing its accounts to the control accounts of the Receiver General, and maintains detailed records of the transactions in those accounts.

The report covers the financial transactions of the Government during the year. In certain cases, parliamentary authority to undertake transactions was provided by legislation approved in earlier years.

Format of the Public Accounts

The Public Accounts is produced in three volumes.

Volume I presents a summary and analysis of the financial transactions of the Government. **Volume II** is published in two parts. **Part I** presents the financial operations of the Government, segregated by ministry while **Part II** presents additional information and analyses.

Volume III responds to Subsection 153(1) of Part XII of the Financial Administration Act which was proclaimed on September 1, 1984. In it, the President of the Treasury Board provides Parliament with an annual consolidated report on the businesses and activities of all parent Crown corporations. The report includes a list naming, as of a specified date, all Crown corporations and all corporations of which any shares are held by, on behalf of or in trust for the Crown or any Crown corporation. Employment and financial data, including aggregate borrowings of parent Crown corporations and other information, are also provided.

The President's Message

I am pleased to present my third Consolidated Annual Report to Parliament pursuant to subsection 153(1) of the *Financial Administration Act (FAA)*. This report on the businesses and activities of parent Crown corporations listed in Schedule C of the Act now contains additional information on Crown corporations.

The new information relates to the eight parent Crown corporations* which are exempt from the reporting and most other provisions of Part XII of the Act. These eight corporations are of relative importance in terms of employment and Canada's annual contribution to their operations is very significant. Previous reports contained their financial statements only. The addition of new data brings the level of information provided on exempt corporations to that of their scheduled counterparts.

The Environment

Two major factors continue to influence the environment of Crown corporations: the ongoing effects of Part XII of the *FAA* and this government's commitment to privatization.

Over two years have now elapsed since Part XII of the *FAA* came into force. In addition, and pursuant to the legislation, regulations have been promulgated dealing with a variety of matters. During these initial two years of the implementation of the control and accountability framework, a new dynamic has emerged with respect to Crown corporations. As a result of the Act, in law and in fact, each Crown corporation is ultimately accountable to Parliament through its appropriate Minister for the conduct of its affairs. As a result of the legislation, and the regulations which flow from it, parliamentarians are equipped with improved accountability instruments with which to evaluate the performance of each scheduled Crown corporation in relation to its stated objectives, and to hold it accountable.

The important accountability documents which are produced by Crown corporations include corporate plans and budgets and their summaries, and annual reports. They are described in law and, in some cases, further described by the regulations of the Treasury Board. Now that the instruments themselves, as well as matters such as the nature of their contents and the timing of their submission, have been addressed, the emphasis has begun to shift away from the control of Crown corporations and towards the question of accountability. Over time, as this new freedom for corporate initiative takes hold, the importance of the corporate plan and budgets, together with the annual report, will emerge as the critical instruments whereby Crown corporations and their management are judged by their performance and their ability to adapt to change.

Annual Highlights

The data contained in this report have been reported by each Crown corporation at its financial year-end occurring on or before July 31, 1986.

At their financial year-ends the 53 scheduled corporations**, together with their subsidiaries, had total assets of $55.0 billion which represents a slight increase of 3.5 per cent from my last report. Exempt corporations, reported here for the first time, had total assets of $6.1 billion, being largely the assets of the Canadian Wheat Board.

Figures for the same period indicate that the 53 corporations and their wholly-owned subsidiaries employed 187,000 people, a decrease of 5.0 per cent from my last report. Two main factors caused the change. First, a drive for efficiency within all Crown corporations over the last two years brought about a decrease of 3,000 employees during the reporting period. However, this decrease was offset in part by increased employment at Petro-Canada as a result of its takeover of the assets of Gulf Canada Limited. Secondly, Canada Post Corporation changed its basis for reporting from person-years to full-time positions, which made its reporting consistent with other corporations and reduced its total by 10,100.

---

* Bank of Canada, Canada Council, Canadian Broadcasting Corporation, Canadian Film Development Corporation, Canadian Institute for International Peace and Security, Canadian Wheat Board, International Development Research Centre and the National Arts Centre Corporation.

** Since my last report, Parliament exempted the Canadian Institute for International Peace and Security from most provisions of Part XII of the *FAA*. On the other hand, two subsidiaries received directives under Section 99 of the Act, to conduct their affairs or to report as if they were named in Schedule C. The two are: Marine Atlantic Inc. (formerly CN Marine Inc.) and Petro-Canada International Assistance Corporation.

Budgetary funding to all Crown corporations, including those exempt from the Act, during this reporting period totalled \$5.5 billion. Among the exempt corporations, the four cultural corporations* received in excess of \$1 billion from Canada.

The budgetary payments from Canada to Schedule C corporations amounted to \$4.4 billion which is \$362 million less than the figure reported last year. This results from the fact that payments to many corporations were somewhat less than those made in prior periods.

Part II of this Annual Report lists corporations which are not wholly-owned by Canada. Among these corporations are mixed and joint enterprises. These are entities in which Canada has a partial equity interest. The total assets of these mixed and joint enterprises in 1985 had reached \$8.5 billion. Of this, the Canada Development Corporation accounted for \$7.3 billion or 85.9 per cent of total.

Corporate Highlights

A number of significant developments have occurred during the past year. More complete information on parent corporations will be found in their annual reports which are tabled in Parliament.

The recent period has been a difficult one for Canada's most prominent Crown corporations in the transportation field. Faced with intense competition and changes in the transportation environment, CN has announced a series of difficult measures designed to halt the deterioration in its financial performance. CN Route is being sold. Productivity, particularly in rail operations, is being improved. Capital expenditures are being curtailed and total indebtedness restricted.

VIA Rail has experienced lower than forecast ridership but, despite management's efforts, costs have risen, particularly for equipment maintenance.

As a consequence of the continued downturn in Seaway traffic, the St. Lawrence Seaway Authority has had to deplete further its reserves to meet operating costs. The age of the Welland Canal will likely necessitate additional expenditures to renew this section of the Seaway.

Air Canada's financial results were also disappointing. The company has since embarked on a cost reduction program coupled with an internal reorganization to improve market responsiveness.

Special circumstances have placed several other corporations under heavy pressure as well. The financial difficulties of a number of member institutions, including the Canadian Commercial Bank and Northland Bank, resulted in a cumulative deficit in the Canada Deposit Insurance Corporation's fund of \$1.2 billion as at December 31, 1985. To remedy this situation, amendments to the *CDIC Act* provide for a substantial increase in premiums chargeable during 1986.

The decline in world oil prices led Petro-Canada to write down the value of properties to the extent of \$865 million after taxes. With the purchase during the year of Gulf Canada Limited's refining, transportation and marketing assets west of Quebec, Petro-Canada became a leader among petroleum product marketers in every region of the country.

Atomic Energy of Canada Limited is in the process of rationalizing its operations to reflect the prolonged hiatus in new orders for nuclear generating plants both in Canada and abroad. A decision was taken in early 1985 to shut down heavy water production facilities, and government funding for nuclear research will be reduced gradually over the next four years; however, AECL expects to maintain its research activities at, or near, current levels through increased participation by the major beneficiaries, including provincial utilities and private industry.

In contrast to this generally bleak picture, some corporations performed well, or better than expected.

*Canadian Broadcasting Corporation, Canada Council, Canadian Film Development Corporation and the National Arts Centre Corporation.

Teleglobe Canada had another good year in 1985 and realized a net income of $53 million, enabling the payment of an $80 million dividend to the government early in 1986.

The overall performance of the ports system (the Canada Ports Corporation and the six Local Ports Corporations) has been favourable. Sharp declines in grain traffic at the eastern ports were partially offset by increased coal shipments at western ports. Uncertainty over levels of traffic in major commodity continues with necessary adjustments being made at individual ports. Indications are that the recently experienced growth in container traffic will continue.

Canada Harbour Place Corporation completed construction of the Canada Pavilion at EXPO '86 on time and within budget. The building has become one of the primary symbols of EXPO '86. The number of visitors to the Canada Pavilion has been more than 20 per cent higher than originally anticipated.

Last but not least, Canada Post Corporation was able to negotiate agreements with its unions without major work stoppages again this year. In the February Budget, the Minister of Finance set the year 1987-88 as the last in which the Canada Post should expect the government to cover an operating deficit. Subsequently, Cabinet has ratified general directions for the corporation which emphasize improvements in service and financial performance.

Privatization

Last year, a Ministerial Task Force on Privatization was established to develop a strategic approach and workplan for the privatization of Schedule C Crown corporations and some mixed enterprises where government ownership is no longer necessary for public policy purposes. Under the direction of the Task Force, a formal three-phase privatization process has been developed. The first phase, which is the critical path assessment, involves an identification of policy, operational and financial issues. The second phase is the development of the privatization plan which requires a resolution of policy and financial issues, and the preparation of the corporation for privatization. The last phase is the actual divestiture, whereby the corporation is publicly announced for sale and the privatization process is finalized.

Since the Budget of May 1985, the Northern Transportation Company Limited was sold for $27 million. Also, the government completed the sale of 21.8 million of its 30.7 million holdings of common shares in the Canada Development Corporation, realizing net proceeds of approximately $245 million.

There are additional major accomplishments to announce. The de Havilland Aircraft of Canada, Limited was sold to Boeing for $155 million, which includes $90 million in cash upon closing and a repayable note of $65 million. Canadian Arsenals Limited was sold to the SNC Group for $92.2 million. All issued shares of Pêcheries Canada Inc were sold to *La co-opérative agro-alimentaire Purdel* for $5 million, subject to final adjustments. Furthermore negotiations are soon to be concluded with Route Canada Holdings Inc. on the sale of CN Route. Negotiations are also proceeding with the territorial governments which are interested in obtaining the Northern Canada Power Commission.

More recently, the government announced the signing of a Letter of Intent to sell Canadair Limited to Bombardier Inc. When negotiations are completed, the government will be paid $120 million in sale proceeds, plus an estimated $173 million over time in Challenger royalties. Of the remaining CDIC companies, Eldorado Nuclear Limited and Teleglobe Canada remain to be sold. Discussions are being held currently with interested parties.

As a further indication of the importance the government places on privatization, on June 30, 1986, the Prime Minister appointed my colleague, the Honourable Barbara McDougall, the Minister of State for Privatization.

Privatization will continue to be carried out in a careful and considered way, according to sound management principles, so that the government may obtain a fair price for its assets while safeguarding the interests of concerned constituents.

Public Policy

Employment Equity

The federal government announced in March 1985 that the Treasury Board would be coordinating the implementation of an Employment Equity Program for designated groups in Crown corporations, comprising women, persons with disabilities, aboriginal peoples and members of visible minority groups.

Over the following 12 months, initiatives were undertaken to ensure the introduction of effective programs by Crown corporations to meet both federal program objectives and the interests of individual corporations. Consultations were held at the policy development stage with representatives of Crown corporations, Employment and Immigration Canada, the Canadian Human Rights Commission, Statistics Canada and various other organizations. The resulting policy was reviewed by representatives of the designated groups serving on advisory committees to the President of the Treasury Board and, in April 1986, Treasury Board's policy and accompanying guidelines on the implementation of Employment Equity in Crown corporations were published.

During the year, the Employment Equity Section made extensive efforts to identify the assistance Crown corporations would require in order to implement the new policy. As a result, group training sessions were held in various parts of the country on the more technical aspects of program implementation for responsible Crown corporation representatives who requested such assistance.

I am pleased to report that support for the Employment Equity Program has been strong at senior management levels in Crown corporations. Working together, strategies are being devised to assist the corporations in building a strong program base from which they can develop and implement their individual action plans, beginning in 1987-88.

Official Languages

Parent Crown corporations and their wholly-owned subsidiaries are subject to the provisions of the *Official Languages Act*. They are therefore required to provide services to the public in both official languages at their head offices, in the National Capital Region, and elsewhere in Canada where there is significant demand. While services are not always available in the French language in regions of significant demand outside the National Capital Region and Quebec, improvements are being made.

The Treasury Board continues to help Crown corporations implement the government's official languages objectives. In 1985, the Secretariat consulted major parent Crown corporations on the implications of Part XII of the *Financial Administration Act*, so that official languages policies are extended to wholly-owned subsidiaries in a reasonable manner, taking into account their diverse mandates, operations and geographic locations.

Regulations

Since my last Annual Report, the following regulations have been promulgated:

Crown Corporation Borrowing Regulations, amendment - 16/01/86 SOR/86-143.

Crown Corporation Corporate Plan and Budget Regulations (Form, Contents, Timing and Period Covered) - 29/07/86 SOR/86-828.

A list of other regulations, made pursuant to Part XII of the *FAA* and promulgated is as follows:

Crown Corporation General Regulations (Notification, Disposal of property by Agent corporations, Remuneration and By-Laws) - 31/08/84 SOR/84-743, amended 05/07/85 SOR/85-643.

Crown Corporation Borrowing Regulations (Transactions, Approvals, Exemptions) - 31/08/84 SOR/84-742, amended 07/03/85 SOR/85-230, amended 12/09/85 SOR/85-902.

Crown Corporation Summaries Regulations (Timing) - 30/01/85 SOR/85-128.

It is clear from the above that the past year was a difficult one for many Crown corporations. It should be recalled however that Crown corporations exist primarily to serve public policy objectives, which must be taken into account when considering their performance. Moreover, many Crown corporations also feel the effects of shifts in the economy, as do their private sector counterparts.

I am pleased with the progress which has been made in the management of the government's portfolio of Crown corporations. Much has been accomplished over the last two years in establishing the systems underlying the control and accountability framework.

In my next Annual Report to Parliament, I will look forward to reporting on the government's further progress in reducing its portfolio of corporate interests.

Robert R. de Cotret

TABLE OF CONTENTS

PART I

ANNUAL CONSOLIDATED REPORT ON THE BUSINESSES AND ACTIVITIES OF ALL PARENT CROWN CORPORATIONS

INTRODUCTION TO PART I

Part I of this Annual Report is a document of record on the financial affairs of all parent Crown corporations, comprised as follows:

- Tables 1 and 2 present aggregate financial and employment data for 60 Crown corporations, comprising:
    - the 51 parent Crown corporations listed in schedule C of the *Financial Administration Act* (FAA) in the twelve months ending July 31, 1986;
    - two subsidiaries of listed corporations, to which by Order pursuant to s. 97(2) of the FAA, the provisions of divisions I to IV of Part XII of that Act were caused to apply as if the two were parent Crown corporations; and,
    - seven parent Crown corporations which, by s. 96(1) of the FAA are exempted from the provisions of the above-cited divisions.
- Audited financial statements for the period covered by the report for each of the above 60 corporations and for the Bank of Canada.
- A Summary Page for each corporation precedes its financial statements. This page presents a financial summary of several years' performance of the particular corporation, along with basic information about the corporation.

The tables show that at the close of the period covered by their reports the 60 corporations had total assets of $61.2 billion and their combined employment was 200,000; their obligations to private sector lenders increased in the report periods by $1.9 billion. However, since the date of the financial year end varies amongst these corporations, these aggregate data do not relate to a single date or period.

The Tables

Tables 1 and 2, which follow, respond to the requirement in the *Financial Administration Act* (FAA) that financial data, including employment and aggregate borrowing by corporations, be reported. The data for individual corporations are "for their financial years ending on or before July 31," 1986, and totals of these data, therefore, do not relate to a single 12-month period.

Data are presented for 60 corporations comprising: 51 corporations which were listed in schedule C of the FAA in the report period; two subsidiaries, CN Marine Inc. (renamed Marine Atlantic Inc.) and Petro-Canada International Assistance Corporation which had been directed to behave, or to report, as if they are parent corporations and, seven of the eight corporations which pursuant to s. 96 of the FAA are exempted from scheduling. The other exempt corporation, the Bank of Canada, is excluded from the tables because of the unique nature of its financial data (see its Summary Page).

Reporting of data is on the following principles:

- **Year-end dates:** December year-ends relate to 1985; other year-ends relate to 1986, unless footnotes indicate otherwise.
- **Employment data** describe the number of full-time employees. They relate to the parent corporation and all its subsidiaries. Special cases are footnoted. Bank of Canada (2,341 employees) is excluded.
- **Net new borrowing data** comprise changes during the financial period in outstanding principal amounts of capital leases and long-term and short-term borrowings. To the extent possible, they do not include adjustments for exchange rate variations and they take no account of transfer of assets and related debts such as those occurring between the port administrations.
- **Budgetary Funding from Canada** comprises cash paid to the parent corporation and, as well, that paid directly to its subsidiaries. Payments for which a class or kind of recipient is eligible are excluded from these data. (Examples of such exclusions are Petroleum Incentive Payments and those for Rehabilitation of Prairie Branch Railway Lines.) Canada Post data include cultural mail subsidies.

Table 1

The financial position of parent Crown corporations
(Data as at year-end; for financial years ending on or before July 31, 1986; $ million.)

FAA Schedule	Year-end	Total Assets	Current Liabilities	Long Term Liabilities	Shareholder's Equity
C-I corporations:					
Atlantic Pilotage Authority	December 31	1.2	0.8	1.0	(0.6)
Atomic Energy of Canada Limited	March 31	1,107.0	157.9	772.3	176.8
Canada Deposit Insurance Corporation[3]	December 31	1,676.4	40.9	2,870.9	(1,235.4)
Canada Harbour Place Corporation[1]	March 31	145.2	12.5	nil	132.7
Canada Lands Company Limited[1]	March 31	negl.	negl.	negl.	nil
Canada Mortgage and Housing Corporation	December 31	10,051.1	197.4	9,803.7	50.0
Canada Museums Construction Corporation Inc.	March 31	100.3	8.9	nil	91.4
Canada Post Corporation	March 31	2,451.4	517.9	357.6	1,575.9
Canadian Arsenals Limited	March 31	n.a.	n.a.	n.a.	n.a.
Canadian Commercial Corporation	March 31	399.5	363.8	nil	35.7
Canadian Dairy Commission[2]	July 31	333.6	333.6	nil	negl.
Canadian Livestock Feed Board	March 31	2.5	1.9	0.1	0.5
Canadian National (West Indies) Steamships, Ltd.	December 31	1.0	0.3	0.1	0.7
Canadian Patents and Development Limited	March 31	1.1	0.5	0.2	0.4
Canadian Saltfish Corporation	March 31	16.6	21.3	0.7	(5.4)
Canagrex	March 31	0.3	0.1	nil	0.2
Cape Breton Development Corporation	March 31	453.9	52.6	nil	401.3
CN Marine Inc.[6] (renamed Marine Atlantic Inc.)	December 31	361.5	31.1	46.7	283.7
Defence Construction (1951) Limited	March 31	2.6	2.8	2.9	(3.1)
Export Development Corporation	December 31	7,296.1	2,336.0	4,064.0	896.1
Farm Credit Corporation	March 31	5,015.0	244.3	4,763.0	7.7
Federal Business Development Bank	March 31	1,595.0	663.7	724.4	206.9
Freshwater Fish Marketing Corporation	April 30	25.5	23.6	nil	1.9
Great Lakes Pilotage Authority, Ltd.	December 31	2.0	3.9	3.3	(5.2)
Harbourfront Corporation	March 31	36.3	36.0	nil	0.3
International Centre for Ocean Development	March 31	0.1	0.1	negl.	negl.
Laurentian Pilotage Authority	December 31	6.3	5.9	0.7	(0.3)
Loto Canada Inc.	March 31	nil	nil	nil	nil
Mingan Associates, Ltd.[1]	December 31	nil	nil	nil	nil
National Capital Commission	March 31	306.5	17.6	4.5	284.4
Northern Canada Power Commission	March 31	268.7	30.1	229.1	9.5
Pacific Pilotage Authority	December 31	5.0	1.6	0.5	2.9
Pêcheries Canada Inc.	December 31	15.9	3.8	3.4	8.7
Petro-Canada International Assistance Corporation[6]	December 31	13.2	13.2	nil	negl.
Royal Canadian Mint	December 31	115.9	80.6	34.3	1.0

St. Anthony Fisheries Limited[1]	March 31	negl.	nil	nil	negl.
St. Lawrence Seaway Authority, The	March 31	645.3	15.3	222.3	407.7
Societa a responsibilita limitata Immobiliare San Sebastiano	December 31	0.1	negl.	nil	0.1
Standards Council of Canada	March 31	3.3	0.8	0.3	2.2
Uranium Canada, Ltd.	December 31	negl.	nil	nil	negl.
VIA Rail Canada Inc.	December 31	898.6	172.2	14.6	711.8
Total C-I corporations[6]		33,354.0	5,393.0	23,920.5	4,040.5
C-II corporations:					
Air Canada	December 31	2,589.5	628.1	1,448.3	513.1
Canada Development Investment Corporation[5]	December 31	642.1	156.6	nil	485.5
Canada Ports Corporation	December 31	231.3	14.0	124.4	92.9
Canadian National Railway Company	December 31	8,138.8	1,486.6	3,233.7	3,418.5
Halifax Port Corporation	December 31	60.2	5.2	31.2	23.8
Montreal Port Corporation	December 31	253.7	11.9	244.1	(2.3)
Petro-Canada	December 31	8,846.1	2,063.5	3,140.2	3,642.4
Port of Quebec Corporation	December 31	88.0	3.8	0.8	83.4
Prince Rupert Port Corporation	December 31	81.2	1.4	87.6	(7.8)
St. John's Port Corporation	December 31	16.9	1.7	2.0	13.2
Teleglobe Canada	December 31	524.9	107.9	109.6	307.4
Vancouver Port Corporation	December 31	242.7	14.3	109.4	119.0
Total C-II corporations		21,715.4	4,495.0	8,531.3	8,689.1
Total Schedule C corporations		55,069.4	9,888.0	32,451.8	12,729.6
Exempt (Unscheduled) Corporations					
Canada Council	March 31	140.1	25.2	1.0	113.9
Canadian Broadcasting Corporation	March 31	742.8	160.6	124.1	458.1
Canadian Film Development Corporation	March 31	13.0	2.7	0.2	10.1
Canadian Institute for International Peace and Security	March 31	1.9	0.1	nil	1.8
Canadian Wheat Board[2]	July 31	5,210.1	4,744.9	79.9	385.3
International Development Research Centre	March 31	16.7	13.2	2.4	1.1
National Arts Centre Corporation	August 31	14.7	14.3	0.4	negl.
Total, exempt corporations		6,139.3	4,961.0	208.0	970.3
Grand Total, parent Crown corporations except Bank of Canada		61,208.7	14,849.0	32,659.8	13,699.9

See Notes, following these tables.

Table 2

Parent Crown corporations

Employment, Borrowing and Budgetary Funding
(for their financial years ending on or before July 31, 1985)

			In their financial years; $ million.		
			Net new borrowings, leases		
FAA Schedule	Year-end	Employment	from (repaid to) private sector	from (repaid to) Canada	Budgetary funding from Canada
C-I corporations:					
Atlantic Pilotage Authority[5]	December 31	79	0.3	negl.	0.6
Atomic Energy of Canada Limited	March 31	5,540	(11.1)	(71.6)	275.1
Canada Deposit Insurance Corporation	December 31	22	58.7	956.2	nil
Canada Harbour Place Corporation	March 31	181	nil	nil	56.2
Canada Lands Company Limited[1]	March 31	127	nil	nil	19.4
Canada Mortgage and Housing Corporation	December 31	2,884	nil	(187.2)	1,656.1
Canada Museums Construction Corporation Inc.	March 31	23	nil	nil	46.5
Canada Post Corporation[4,5]	March 31	52,771	nil	nil	409.4
Canadian Arsenals Limited[1]	March 31	737	n.a.	n.a.	nil
Canadian Commercial Corporation	March 31	118	nil	nil	15.8
Canadian Dairy Commission[2,5]	July 31	71	nil	53.9	314.4
Canadian Livestock Feed Board	March 31	23	nil	nil	16.8
Canadian National (West Indies) Steamships, Ltd.	December 31	nil	nil	nil	nil
Canadian Patents and Development Limited	March 31	27	nil	nil	0.4
Canadian Saltfish Corporation	March 31	39	nil	5.1	nil
Canagrex	March 31	nil	nil	nil	nil
Cape Breton Development Corporation	March 31	3,624	nil	(10.8)	120.1
CN Marine Inc.[6] (renamed Marine Atlantic Inc.)	December 31	2,575	nil	nil	141.1
Defence Construction (1951) Limited	March 31	272	nil	nil	14.3
Export Development Corporation[4]	December 31	577	731.5	(103.2)	nil
Farm Credit Corporation	March 31	571	413.6	(214.3)	nil
Federal Business Development Bank	March 31	1,232	161.1	(119.0)	25.9
Freshwater Fish Marketing Corporation	April 30	250	(0.3)	1.1	nil
Great Lakes Pilotage Authority, Ltd.[5]	December 31	142	nil	nil	3.4
Harbourfront Corporation	March 31	133	nil	nil	6.1
International Centre for Ocean Development	March 31	15	nil	nil	1.1
Laurentian Pilotage Authority[5]	December 31	293	0.3	nil	2.0
Loto Canada Inc.	March 31	nil	nil	nil	nil
Mingan Associates, Ltd.[1]	December 31	nil	nil	nil	nil
National Capital Commission	March 31	794	nil	(26.3)	81.0
Northern Canada Power Commission	March 31	322	nil	(4.1)	nil

Pacific Pilotage Authority	December 31	153	nil	negl.	nil
Pêcheries Canada Inc.	December 31	641	1.2	nil	nil
Petro-Canada International Assistance Corporation[6]	December 31	15	nil	2.3	20.3
Royal Canadian Mint	December 31	731	(0.2)	18.0	nil
St. Anthony Fisheries Limited[1]	March 31	nil	nil	nil	nil
St. Lawrence Seaway Authority, The	March 31	1,016	nil	nil	nil
Societa a responsibilita limitata Immobiliare San Sebastiano[1]	December 31	nil	nil	nil	nil
Standards Council of Canada	March 31	76	nil	nil	5.4
Uranium Canada, Ltd.	December 31	nil	nil	nil	nil
VIA Rail Canada Inc.	December 31	4,178	nil	nil	631.4
Total C-I corporations[6]		80,252	1,355.1	300.1	3,862.8
C-II corporations:					
Air Canada	December 31	22,134	177.7	(32.0)	nil
Canada Development Investment Corporation[5]	December 31	10,196	(1,116.9)	nil	500.0
Canada Ports Corporation[5]	December 31	297	nil	negl.	14.1
Canadian National Railway Company	December 31	61,124	437.0	(8.8)	9.0
Halifax Port Corporation	December 31	105	nil	nil	nil
Montreal Port Corporation	December 31	670	nil	(0.3)	nil
Petro-Canada	December 31	10,565	576.1	nil	nil
Port of Quebec Corporation	December 31	91	nil	nil	nil
Prince Rupert Port Corporation	December 31	12	nil	nil	0.3
St. John's Port Corporation	December 31	18	nil	nil	nil
Teleglobe Canada	December 31	1,180	(1.8)	(1.3)	nil
Vancouver Port Corporation	December 31	224	nil	(0.2)	nil
Total C-II corporations		106,616	72.1	(42.6)	523.4
Total Schedule C corporations		186,868	1,427.2	257.5	4,386.2
Exempt (Unscheduled) Corporations					
Canada Council	March 31	222	nil	nil	74.2
Canadian Broadcasting Corporation	March 31	11,581	nil	nil	857.3
Canadian Film Development Corporation	March 31	77	nil	nil	75.9
Canadian Institute for International Peace and Security	March 31	18	nil	nil	2.5
Canadian Wheat Board[2,5]	July 31	489	436.3	nil	nil
International Development Research Centre	March 31	444	(0.3)	nil	86.0
National Arts Centre Corporation	August 31	288	0.8	(0.1)	15.3
Total, exempt corporations		13,119	436.8	(0.1)	1,111.2
Grand Total, parent Crown corporations except Bank of Canada		199,987	1,864.0	257.4	5,497.4

See Notes, following these tables.

Notes to the Tables

1. For some corporations, audited consolidated financial statements for the period covered by this Report were not available when the Report was sent to press. Therefore, *preliminary data* for the report period are presented in respect of:

   Canada Lands Company Limited
   Mingan Associates, Ltd.
   Societa a responsibilita limitata Immobiliare San Sebastiano

2. Financial data presented are from audited financial statements for a period other than the report period, as follows:

   Canadian Dairy Commission - 12 months ending July 31, 1985

   Canadian Wheat Board - 12 months ending July 31, 1985

3. The equity value for Canada Deposit Insurance Corporation takes account of the position of its Deposit Insurance Fund.

4. Funding data for Export Development Corporation are Corporate Account data. Budgetary funding to Canada Post Corporation includes cultural mail subsidies.

5. Employment data:

   - for Canadian Dairy Commission and Canadian Wheat Board are as at June 1, 1986.
   - for Canada Development Investment Corporation comprise employment in Eldorado Nuclear Limited, in Canadair Limited, in de Havilland Aircraft of Canada Limited and that in the parent corporation.
   - for Canada Ports Corporation do not include employment in the local port corporations named in these Tables.
   - for Canada Post Corporation have previously been reported on person-year basis.
   - for the four Pilotage Authorities include contract pilots.

6. CN Marine Inc. (recently renamed Marine Atlantic Inc.) and Petro-Canada International Assistance Corporation are shown amongst C-I corporations since, though not scheduled in the report period they had been directed, pursuant to s. 97(2) of the FAA, to conduct their affairs, or to report, as if they were (C-I) parent Crown corporations.

4.

SUMMARY PAGES AND THE AUDITED FINANCIAL STATEMENTS
FOR EACH PARENT CROWN CORPORATION

A Summary Page precedes the audited financial statements of each parent Crown corporation.

Each Summary Page presents basic information about a corporation's mandate, origins and present status and names the senior officers as of October 1, 1986. As well, a financial summary includes information such as obligations (which comprise long-term and short-term loan principal outstanding and other funding to be repaid, plus capital leases) and details of the cash provided to the corporation and its subsidiaries by Canada. The non-budgetary amounts displayed in the financial summary include equity infusions as well as loan funding.

Bracketed values () denote: for assets or equity, a deficit;
for "cash from Canada, net", a net payment to the Consolidated Revenue Fund.

SUMMARY PAGE

AIR CANADA

MANDATE

To provide a publicly-owned air transportation service, with powers to carry out other businesses incidental to the airline operation, having due regard to sound business principles and, in particular, the contemplation of profit.

BACKGROUND

The Corporation's operation began in 1937. Until 1978, it was a subsidiary of CNR. Today it operates 112 jet aircraft, has 22,100 employees and its operations comprise 60 per cent of Canadian revenue-passenger miles flown. No federal funds have been invested in Air Canada since the conversion to equity in 1978 of $324 million of its debt obligations to Canada.

CORPORATION DATA

HEAD OFFICE	500 Dorchester Boulevard West Montreal, Quebec H2Z 1X5
STATUS	—Schedule C, Part II —not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	*Trans Canada Airlines Act*, 1937; repealed and replaced by *Air Canada Act*, 1977 (S.C. 1977-78, C. 5).
CHIEF EXECUTIVE OFFICER	Pierre J. Jeanniot
CHAIRMAN	Claude I. Taylor
AUDITOR	Thorne Riddell, Poissant, Richard

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	1984 (restated)	1983	1982
At the end of the year				
Total Assets	2,590	2,508	2,187	2,037
Obligations to the private sector	1,265	1,087	848	629
Obligations to Canada	196	228	246	263
Equity of Canada	513	528	486	482
Cash from Canada in the year				
—budgetary	nil	nil	nil	nil
—non-budgetary	nil	nil	nil	nil

AIR CANADA

MANAGEMENT REPORT

The consolidated financial statements contained in this annual report have been prepared by management in accordance with generally accepted accounting principles and the integrity and objectivity of the data in these financial statements are management's responsibility. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements. In support of its responsibility, management maintains a system of internal control to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the external auditors at least four times each year.

The external auditors, Thorne Riddell, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of the Corporation's system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board and meet with it on a regular basis.

Pierre J. Jeanniot
President & Chief
Executive Officer

William J. Reid
Senior Vice President
Finance

AUDITORS' REPORT

TO THE HONOURABLE
THE MINISTER OF TRANSPORT

We have examined the consolidated balance sheet of Air Canada as at December 31, 1985 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions of the Corporation and of its subsidiaries that have come to our notice in the course of our examination of the financial statements were in accordance with Part XII of the Financial Administration Act, its regulations, the Air Canada Act and the By-laws of the Corporation.

The 1984 comparative figures are based on financial statements reported upon by other auditors.

Thorne Riddell
Poissant Richard
Chartered Accountants

Montreal, Canada
February 14, 1986

CONSOLIDATED BALANCE SHEET DECEMBER 31
(in thousands of dollars)

ASSETS	1985	1984
Current		
Cash and short-term investments	62,293	50,684
Accounts receivable	301,457	269,581
Spare parts, materials and supplies	89,622	78,079
Prepaid expenses	12,144	10,581
Deferred income taxes	38,489	34,786
	504,005	443,711
Property and equipment (Note 2)	1,807,189	1,893,056
Flight equipment under capital leases (Note 3)	91,715	106,380
Investment in other companies (Note 4)	31,604	21,575
Long-term receivables and deferred charges	154,989	43,755
	2,589,502	2,508,477

LIABILITIES	1985	1984
Current		
Accounts payable and accrued liabilities	348,537	350,125
Advance ticket sales	171,127	153,052
Current portion of long-term debt and capital lease obligations	108,399	96,612
	628,063	599,789
Long-term debt (Note 5)	1,259,124	1,103,079
Long-term obligations under capital leases (Note 6)	93,570	115,497
Other long-term liabilities	19,836	17,618
Deferred credits		
Deferred income taxes	67,738	111,085
Other	8,095	33,512
	2,076,426	1,980,580
SHAREHOLDER'S EQUITY		
Share capital		
Authorized: $750 million divided into shares of one thousand dollars each		
Issued and fully paid: 329,009 shares	329,009	329,009
Retained earnings	184,067	198,888
	513,076	527,897
	2,589,502	2,508,477

See accompanying notes.

On behalf of the Board:

CLAUDE I. TAYLOR
Chairman of the Board

PIERRE J. JEANNIOT
President & Chief Executive Officer

AIR CANADA—*Continued*

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1985	1984
Operating revenues		
Passenger	2,109,845	1,989,019
Cargo	319,330	280,421
Contract services and other	293,402	229,975
	2,722,577	2,499,415
Operating expenses		
Salaries, wages and benefits	910,223	873,214
Aircraft fuel (Note 7)	565,153	542,177
Sales commissions	188,591	174,951
Maintenance materials, supplies and services	142,347	111,878
Passenger meals and services	135,613	124,281
Depreciation, amortization and obsolescence	192,561	164,693
Other	586,548	465,449
	2,721,036	2,456,643
Operating income	1,541	42,772
Non-operating income (expense)		
Interest on long-term debt and capital lease obligations	(114,110)	(101,539)
Interest income	7,882	8,934
Interest capitalized	3,604	9,048
Gain on disposal of property, equipment and investments	13,859	31,277
Foreign exchange	16,246	6,563
Other	15,218	8,574
	(57,301)	(37,143)
Income (loss) before income taxes and extraordinary items	(55,760)	5,629
Recovery of deferred income taxes (Note 8)	33,865	16,276
Net income (loss) before extraordinary items	(21,895)	21,905
Extraordinary items (Note 9)	7,074	6,223
Net income (loss)	(14,821)	28,128

See accompanying notes.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1985	1984
Retained earnings at beginning of year		
As previously reported		157,094
Prior years' adjustment (Note 10)		13,666
As restated	198,888	170,760
Net income (loss)	(14,821)	28,128
Retained earnings at end of year	184,067	198,888

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1985	1984
Cash provided by (used for)		
Operations		
Net income (loss) before extraordinary items	(21,895)	21,905
Extraordinary items	(5,062)	(26,389)
Non-cash items included in net income (loss)	129,122	114,178
Income results	102,165	109,694
Change in net trade balances	(33,464)	18,606
Increase in advance ticket sales	18,075	6,912
Increase in spare parts, materials and supplies	(18,925)	(15,590)
Other	(3,231)	(18,142)
	64,620	101,480
Financing		
Long-term borrowings	136,545	307,886
Repayment of long-term debt	(113,503)	(66,085)
Repayment of capital lease obligations	(22,814)	(21,292)
Deferred foreign exchange gains	20,586	19,749
Other	(4,653)	(1,687)
	16,161	238,571
Investments		
Additions to fixed assets	(104,169)	(430,547)
Proceeds from disposal of fixed assets	36,491	58,425
Investment in affiliated companies	(3,884)	33,152
Dividends received from affiliated companies	2,390	3,608
	(69,172)	(335,362)
Increase in cash position	11,609	4,689
Cash position at beginning of year	50,684	45,995
Cash position at end of year	62,293	50,684

Cash position consists of cash and short-term investments.
See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of Air Canada and its wholly-owned subsidiaries, Touram Inc. and Airline Maintenance Buildings Limited. All inter-company transactions have been eliminated.

(b) Depreciation and amortization

Operating property and equipment, including assets under capital lease, are depreciated or amortized to estimated residual values based on the straight-line method over their estimated service lives. Estimated service lives for flight equipment range from 14 to 18 years, except when extended by significant modifications. Estimated service lives for other property and equipment range from 5 to 30 years.

(c) Maintenance

Maintenance and repairs are charged to operating expenses except for significant modification costs which are capitalized.

(d) Spare parts, materials and supplies

Spare parts, materials and supplies are valued at average cost. A provision for the obsolescence of flight equipment spare parts is accumulated over the estimated service lives of the related flight equipment.

AIR CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

(e) Airline revenue

Airline passenger and cargo sales are recognized as operating revenues when the transportation is used. The value of unused transportation is included in current liabilities.

(f) Interest capitalized

Interest on funds used to finance the acquisition of new flight equipment and other property and equipment is capitalized for periods preceding the dates the assets are put into service.

(g) Translation of foreign currencies

Monetary assets and liabilities in foreign currencies are translated at month-end exchange rates with any gain or loss included in income of the year, except gains or losses relating to long-term debt which are deferred and amortized over the remaining life of the debt. Other assets and liabilities and items affecting income are converted at rates of exchange in effect at the date of the transaction.

(h) Investment tax credits

Investment tax credits related to assets acquired prior to 1985 are recognized in income net of applicable deferred income taxes, using the flow through method in the year in which the credits are claimed for tax purposes. Investment tax credits related to assets acquired after 1984 are recognized as a reduction of the cost of property and equipment in the year of acquisition.

2. Property and equipment

	1985	1984
	$	$
Cost		
Flight equipment	2,270,031	2,308,617
Other property and equipment	694,285	597,014
	2,964,316	2,905,631
Accumulated depreciation and amortization		
Flight equipment	806,910	740,735
Other property and equipment	387,550	349,396
	1,194,460	1,090,131
	1,769,856	1,815,500
Progress payments	37,333	77,556
Net book value	1,807,189	1,893,056

Flight equipment includes 5 aircraft retired from service with a net book value of $5.5 million. These aircraft were contracted for sale for $14.5 million in February 1986.

3. Flight equipment under capital leases

	1985	1984
	$	$
Flight equipment under capital leases	295,985	292,103
Less: accumulated depreciation	204,270	185,723
Net book value	91,715	106,380

4. Investment in other companies

Investments in companies accounted for on the equity basis included GPA Group Limited (22.7% owned), Innotech Aviation Limited (30.0% owned), MATAC Cargo Ltd. (50.0% owned), Global Travel Computer Holdings Ltd. (33.3% owned, 21.1% owned until December 25, 1985) and Nordair Ltd. (86.5% owned until its sale effective May 31, 1984). The Corporation's share of the earnings of these companies has been included in other non-operating income and amounted to $9.1 million (1984—$4.3 million).

5. Long-term debt

	1985	1984
	$	$
Government of Canada		
7.2% note, payable semi-annually, maturing in 1993	196,098	215,198
8.31% note		12,851
	196,098	228,049
Other		
8.7% notes due 1995-96	504,211	493,531
7.3% note due 1991 to 1994	104,760	
11.25% bonds due 1994	70,000	61,196
6.25% bonds due 1992	67,860	50,800
5.5% bonds due 1995	67,860	50,800
9.0% bonds due 1992	57,190	41,880
7.375% bonds due 1993	57,190	41,880
8.0% notes due 1990-91	50,733	56,543
8.5% note due 1991-92	46,699	51,598
8.375% note due 1990	35,007	40,456
9.25% note due 1991	32,128	26,386
Various notes due 1986 to 1992 with an average interest rate of 10.35%	53,530	34,020
	1,147,168	949,090
	1,343,266	1,177,139
Current portion	84,142	74,060
	1,259,124	1,103,079

None of the long-term debt is secured.

Repayment requirements over the next five years amount to $457.0 million; $84.1 million in 1986, $86.9 million in 1987, $91.5 million in 1988, $96.5 million in 1989 and $98.0 million in 1990.

Long-term debt includes $635.5 million payable in U.S. funds, $135.7 million in Swiss francs, $114.4 million in German marks, $104.8 million in Japanese yen, $70.0 million in U.K. Sterling, and $32.1 million in French francs. Essentially all the U.S. debt is covered by long-term U.S. currency forward exchange contracts. On May 1, 1985 the Corporation entered into a currency swap agreement with a Canadian bank which had the effect of extinguishing future exchange fluctuations of the Sterling debt and interest.

During the year the Corporation entered into interest rate swap agreements expiring in 1988 and 1990 aggregating U.S. $150 million in notional principal. The Corporation has assumed the variable interest rate position adjusted quarterly to the prevailing LIBOR rate against an average 10.15% fixed interest rate position assumed by third parties.

At December 31, 1985 the Corporation has revolving and term credit agreements totalling $200 million with two Canadian chartered banks. The revolving and term periods are three and five years respectively. As at December 31, 1985 there were no outstanding drawings against these agreements.

AIR CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

6. Lease obligations

The future minimum lease payments under capital and operating leases are as follows:

	Capital leases—Aircraft	Operating leases—Aircraft & property
	$	$
1986	33,185	44,236
1987	31,833	40,658
1988	31,173	30,371
1989	26,597	23,602
1990	21,683	21,028
Remaining years	5,266	174,798
Total future minimum lease payments	149,737	334,693
Less: amount representing interest and holdbacks	31,910	
Present value of obligations under capital leases	117,827	
Less: current portion of obligations	24,257	
Present value of long-term obligations under capital leases	93,570	

Capital leases are recorded at the present value of the lease payments using the interest rate implicit in the lease. The average implicit interest rate of these obligations is 7.6% and their expiry dates are from 1986 to 1991.

7. Fuel surcharge

A provision of $24.7 million for fuel surcharges accrued during the period February 1982 to April 1983 has been reversed and reflected as a reduction of operating expense for the year.

8. Income taxes

The Corporation's recovery of deferred income taxes is comprised as follows:

	1985	1984
	$	$
Recovery of (provision for) income taxes based on a combined basic Canadian federal and provincial income tax rate	24,535	(2,469)
Lower effective income tax rate on capital gains	5,125	3,363
Tax exempt earnings of related companies	4,024	1,829
Investment tax credits, net of deferred income tax of $11,455 in 1984		13,376
Miscellaneous	181	177
Recovery of deferred income taxes	33,865	16,276

As at December 31, 1985 the Corporation has available $35 million of investment tax credits that can be applied from 1986 to 1988 as a reduction to future federal income taxes payable. The benefit of these credits has not been recognized in the accounts.

9. Extraordinary items

The Corporation has amended its 1984 calculation of investment tax credits. Accordingly, investment tax credits have been recognized in income in the amount of $9.9 million (1984—$21.0 million) after deducting deferred income taxes of $7.8 million (1984—$16.4 million). Provision for the cost of major staff reduction programs amounted to $2.8 million (1984—$14.8 million) after deducting deferred income taxes of $2.2 million (1984—$11.6 million).

10. Prior years' adjustment

The Corporation has determined that deferred income taxes recorded in prior years exceeded requirements by $14.8 million based on applicable statutory income tax rates in such years. Accordingly, previously reported deferred income taxes have been restated. As a result, net income before extraordinary items and net income for 1984 have been increased by $.7 million and $1.1 million respectively and the cumulative effect to January 1, 1984 of $13.7 million has been reflected as an increase in retained earnings at that date.

11. Changes in accounting estimates

The following major changes in accounting estimates were recorded in 1985, the aggregate effect of which reduced the net loss by $14.4 million after deducting deferred income taxes of $8.5 million.

(a) A change was made in estimating the value of unused transportation revenue which resulted in an increase in passenger revenue of $10.2 million.

(b) The method of amortizing deferred foreign exchange gains and losses was refined, which resulted in a $7.0 million reduction in non-operating expense.

(c) The estimated service lives of DC-8 freighter aircraft have been extended by major modifications including re-engining. As a result, 1985 depreciation and obsolescence expense was reduced by $5.7 million.

12. Commitments

As at December 31, 1985, contracts for aircraft modifications amounted to approximately U.S. $12 million. Other commitments for property, ground equipment and spare parts, amounted to approximately $45 million Canadian.

13. Pension plans

The cost of funding current service pension benefits is charged to operations as incurred. Unfunded liabilities, as determined by actuarial valuations, are funded by annual payments which are charged to operations over periods recommended by the actuaries and in accordance with regulatory requirements. Experience gains or losses as determined by actuarial valuations are amortized to income over three years.

The total charge for these plans for the year was $35.9 million (1984—$36.2 million), net of an actuarial experience gain of $20.4 million in both years.

As at December 31, 1985, the unfunded liability of the Corporation's pension plans amounted to $248 million ($224 million in 1984), based on the latest actuarial valuations undertaken as at December 31, 1983, and is being funded by annual payments over various periods ending 2003.

At December 31, 1985, the market value of the pension funds' assets exceeded the value of vested benefits.

AIR CANADA—*Concluded*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Concluded*

14. Contingencies

Various lawsuits and claims are pending by and against the Corporation. It is the opinion of management that final determination of these claims will not materially affect the financial position or the results of the Corporation.

15. Related party transactions

In the ordinary course of business, the Corporation enters into transactions with related parties, including the Government of Canada, its agencies and other Crown Corporations. The Corporation derives revenues from related parties for passenger, cargo and contract services. Expenses with related parties include landing fees, terminal assessments, taxes and interest on long-term debt. Account balances resulting from these transactions are included in the balance sheet and are settled on normal trade terms.

16. Comparative figures

Certain of the 1984 comparative figures in the consolidated statements of income, retained earnings and changes in financial position have been reclassified to conform to the presentation adopted in 1985.

17. Act of incorporation

The Corporation operates under the Air Canada Act, 1977, as amended.

18. Subsequent events

On January 22, 1986 the Corporation concluded a 6¼% subordinated perpetual bond issue of $200.9 million (300 million Swiss francs). These bonds are unsecured and may be called by the Corporation at 102% of par in year 2001 and every fifth year thereafter.

On February 7, 1986 the Corporation concluded a 5¾% subordinated perpetual bond issue of $135.1 million (200 million Swiss francs). These bonds are unsecured and may be called by the Corporation at 101½% of par in year 1999 and every fifth year thereafter at 102% of par.

SUMMARY PAGE

ATLANTIC PILOTAGE AUTHORITY

MANDATE

To establish, operate, maintain and administer in the interests of safety, an efficient pilotage service within designated waters in and around the Atlantic provinces.

BACKGROUND

Established in 1972, the Authority provides pilotage services and has the power to make regulations, subject to the approval of the Governor in Council, which establish compulsory pilotage areas; prescribe the ships/classes of ships that are subject to compulsory pilotage, the circumstances under which compulsory pilotage may be waived and pilotage tariffs; and which cover the licensing of pilots and issuance of pilotage certificates. Tariffs must be fair and reasonable and sufficient to permit the Authority to operate on a self-sustaining financial basis.

CORPORATION DATA

HEAD OFFICE	Bank of Montreal Tower 5151 George Street Halifax, Nova Scotia B3J 1M5
STATUS	—Schedule C, Part I —not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	Established pursuant to the *Pilotage Act* (S.C. 1970-71-72, C. 52) which was proclaimed to come into force on February 1, 1972.
CHIEF EXECUTIVE OFFICER AND CHAIRMAN	A. Douglas Latter
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	**1984**	**1983**	**1982**
At the end of the year				
Total Assets	1.2	1.7	1.9	1.7
Obligations to the private sector	0.3	nil	nil	nil
Obligations to Canada	0.4	0.5	0.6	0.6
Equity of Canada	(0.6)	(0.1)	negl.	negl.
Cash from Canada for the year				
—budgetary	0.6	0.1	nil	0.5
—non-budgetary	nil	nil	nil	nil

ATLANTIC PILOTAGE AUTHORITY

AUDITOR'S REPORT

THE HONOURABLE DONALD MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

I have examined the balance sheet of Atlantic Pilotage Authority as at December 31, 1985 and the statements of operations and deficit, contributed capital and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Pilotage Act and regulations, and the by-laws of the Authority.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 21, 1986

BALANCE SHEET
AS AT DECEMBER 31, 1985

ASSETS	1985	1984
	$	$
Current		
Cash	16,801	218,165
Accounts receivable	526,967	691,233
Prepaid expenses	14,869	12,541
	558,637	921,939
Fixed, at cost (Note 4)	1,476,593	1,469,715
Less: accumulated depreciation	807,182	735,208
	669,411	734,507
	1,228,048	1,656,446

LIABILITIES	1985	1984
	$	$
Current		
Bank loan	300,000	
Accounts payable and accrued liabilities	400,646	282,846
Due to Canada in respect of parliamentary appropriations		186,468
Obligation under capital lease agreements (Note 5)	77,685	71,558
Current portion of accrued employee termination benefits	24,538	14,188
	802,869	555,060
Long-term		
Accrued employee termination benefits	694,950	728,576
Obligation under capital lease agreements net of current portion (Note 5)	371,214	448,899
	1,066,164	1,177,475
	1,869,033	1,732,535
CONTRIBUTED CAPITAL AND DEFICIT		
Contributed capital	845,503	845,503
Deficit	(1,486,488)	(921,592)
	(640,985)	(76,089)
	1,228,048	1,656,446

Approved by the Authority:

A. D. LATTER
Chairman

C. R. WORTHINGTON
Member

JANET KUSHNER
Secretary

ATLANTIC PILOTAGE AUTHORITY—*Continued*

STATEMENT OF OPERATIONS AND DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1985

	1985	1984
	$	$
Income		
Pilotage charges	5,484,593	5,826,312
Interest and other income (Note 8)	64,860	32,798
	5,549,453	5,859,110
Expenses		
Pilots' fees, salaries and benefits	3,019,500	2,969,199
Pilot boats, operating costs	1,897,577	1,801,874
Staff salaries and benefits	366,023	391,148
Transportation and travel	242,789	239,173
Professional and special services	199,821	179,411
Rentals	127,612	131,662
Utilities, materials and supplies	42,703	53,986
Depreciation	73,676	73,686
Interest on capital leases	42,795	48,651
Communications	58,061	61,837
Sundry	43,792	17,222
	6,114,349	5,967,849
Net loss for the year (Note 3)	564,896	108,739
Deficit, beginning of year	921,592	812,853
Deficit, end of year	1,486,488	921,592

STATEMENT OF CONTRIBUTED CAPITAL FOR THE YEAR ENDED DECEMBER 31, 1985

	1985	1984
	$	$
Balance, beginning of year	845,503	771,971
Parliamentary appropriations to finance (Note 3)		
Additions to fixed assets		1,974
Principal payments on capital leases		71,558
		73,532
Balance, end of year	845,503	845,503

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1985

	1985	1984
	$	$
Financing activities		
Bank loans	300,000	
Advance of parliamentary appropriations		260,000
	300,000	260,000
Reimbursement of parliamentary appropriations	(186,468)	(385,000)
Principal portion of capital lease payments	(71,558)	(65,917)
	41,974	(190,917)
Operating activities		
Cash (used for) provided from operations		
Net loss for the year	(564,896)	(108,739)
Items not requiring cash		
Depreciation	73,676	73,686
Increase in long-term termination benefits	70,713	75,330
Loss (gain) on disposal of fixed assets	2,220	(333)
Cash (used for) provided from operations	(418,287)	39,944
Cash provided by (invested in) non cash working capital	279,738	(15,192)
Employee termination benefit payments	(93,989)	(41,381)
Net cash flow (used for) operations	(232,538)	(16,629)
Investing activities		
Additions to fixed assets	(10,800)	(16,985)
Proceeds from the disposal of fixed assets		3,220
	(10,800)	(13,765)
(Decrease) in cash during the year	(201,364)	(221,311)
Cash, beginning of year	218,165	439,476
Cash, end of year	16,801	218,165

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1985

1. Nature of activities

The Atlantic Pilotage Authority was established on February 1, 1972 pursuant to the Pilotage Act. The objects of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act provides that pilotage tariffs shall be fair, reasonable and sufficient, together with any revenue from other sources, to permit the Authority to operate on a self-sustaining financial basis.

2. Significant accounting policies

(a) Parliamentary appropriations

When revenues are not sufficient to permit the Authority to operate on a self-sustaining financial basis, cash operating losses are recovered from parliamentary appropriations. These appropriations are recorded in the accounts when approved by Parliament and are reflected in the statement of deficit.

(b) Depreciation

Depreciation of fixed assets is calculated on a straight-line basis and is based on the estimated useful life of the assets as follows:

Buildings	20 years
Pilot boats	20 years
Pilot boats under capital lease	25 years
Furniture and equipment	10 years

ATLANTIC PILOTAGE AUTHORITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

(c) Contributed capital

Capital assets and the principal portion of payments under capital lease agreements financed from parliamentary appropriations are shown as contributed capital when approved by Parliament.

(d) Capital leases

The Authority leases three pilot boats from Canada under long-term financing leases. Under the terms of the lease agreements, the Authority assumes the rights and obligations of ownership. As a result, the leases are treated as purchases and the principal portion of lease payments is capitalized and depreciated over the estimated useful lives of the boats. The corresponding liability is reduced by the principal portion of lease payments and the interest portion is expensed in the year to which it relates.

(e) Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are expensed when paid, generally over the remaining years of service of the pilots.

(f) Employee termination benefits

Employees of the Authority are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees.

3. Parliamentary appropriation

On February 6, 1986 Treasury Board approved the Authority's application, in the amount of $640,000, to include an item in Supplementary Estimates 'C' for 1985-86 for the 1985 cash operating loss and capital expenditures. The actual amounts are as follows:

	$
Cash operating loss	522,626
Fixed asset additions	10,800
Principal payments for capital leases	77,685
	611,111

4. Fixed assets

	1985			1984
	Cost	Accumulated Depreciation	Net	Net
	$	$	$	$
Land and buildings	1,450	1,000	450	450
Pilot boats	378,490	292,572	85,918	108,887
Pilot boats under capital lease	964,000	428,160	535,840	574,400
Furniture and equipment	132,653	85,450	47,203	50,770
	1,476,593	807,182	669,411	734,507

5. Capital lease agreements

The Authority leases three pilot boats under long-term financing leases. The payments required under the leases are as follows:

	1985	1984
	$	$
9⅜% lease agreement, due April 1991, payable in blended annual payments of $54,785	328,715	383,500
8% lease agreement, due October 1989, payable in blended annual payments of $31,077	124,305	155,382
8% lease agreement, due November 1989, payable in blended annual payments of $31,077	124,305	155,382
Total lease payments	577,325	694,264
Less: amount representing interest	128,426	173,807
Principal amount of capital lease	448,899	520,457
Less: current portion	77,685	71,558
Principal amount of capital lease agreements net of current portion	371,214	448,899

The following is a schedule of minimum lease payments under the capital leases expiring October 1989 and April 1991.

	1985	1984
	$	$
Year ending December 31		
1985		116,939
1986	116,939	116,939
1987	116,939	116,939
1988	116,939	116,939
1989	116,939	116,939
Aggregate due after 1989	109,569	109,569
Total minimum lease payments	577,325	694,264

Upon maturity of the leases, the Authority has the option to purchase each of the boats for $1.

6. Pension plan

Under provisions of the Pilotage Act, pilots may choose to become employees of the Authority and become entitled to count service prior to becoming an employee as pensionable under the Public Service Superannuation Act. For pilots who have elected to purchase pension benefits with respect to past service, the Authority is required to match the employee contribution. Total past service pension expense was $20,985 in 1985 ($19,234—1984). The estimated unfunded past service pension contribution with respect to these employees was approximately $127,000 at December 31, 1985 ($152,000 at December 31, 1984) and will be funded over the remaining years of service of the pilots, or the terms of purchase whichever is the lesser.

7. Related party transactions

The Canadian Coast Guard, through its Vessel Traffic Service Centres in Nova Scotia, New Brunswick and Newfoundland, provides a pilot dispatching service to the Authority without charge.

8. Other income

During the year, the Authority received $37,536 net of certain disbursements, as a reward for the rescue of a ship in distress.

9. Income tax

Under the provisions of the Income Tax Act, the Authority is not subject to income tax.

10. Comparative figures

Certain of the 1984 figures have been reclassified so as to conform with the presentation adopted in 1985.

SUMMARY PAGE

ATOMIC ENERGY OF CANADA LIMITED

MANDATE

To develop the utilization of atomic energy for peaceful purposes.

BACKGROUND

Founded in 1952, AECL developed Candu and heavy water manufacturing technology and established related facilities. Three provincial utilities received federal financing for nuclear facilities through AECL and now make repayments to it which are passed on to Canada. The corporation was responsible for Candu reactors built recently in Argentina and in Korea and is providing services related to two Candu reactors under construction in Romania. Consideration is now being given to the privatization of the Radiochemical Division which produces and markets radiating isotopes and medical equipment.

CORPORATION DATA

HEAD OFFICE	275 Slater Street Ottawa, Ontario K1A 0S4
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Marcel Masse, P.C., M.P.
DEPARTMENT	Energy, Mines and Resources
DATE AND MEANS OF INCORPORATION	February 14, 1952 under Part I of *Canada Corporations Act*. Continued July 8, 1977 *Canada Business Corporations Act*; certificate amended July 15, 1982. The mandate of the corporation is prescribed by s. 10(1) of the *Atomic Energy Control Act* and by its charter and articles of incorporation.
CHIEF EXECUTIVE OFFICER AND PRESIDENT	James Donnelly
CHAIRMAN	Robert Després, O.C.
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	1,107	1,226	1,285	1,348
Obligations to the private sector	24	36	44	52
Obligations to Canada	649	720	767	773
Equity of Canada	177	148	143	179
Cash from Canada in the period				
— budgetary	275	326	336	315
— non-budgetary	nil	nil	5	8

ATOMIC ENERGY OF CANADA LIMITED

MANAGEMENT RESPONSIBILITY

The financial statements and all other information presented in this annual report are the responsibility of the management and the Board of Directors of the Corporation. The financial statements have been prepared in accordance with generally accepted accounting principles and include estimates based on the experience and judgement of management.

The Corporation maintains books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and accurate financial information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, that operations are carried out effectively and that transactions are in accordance with Part XII of the Financial Administration Act and its regulations, as well as the by-laws and policies of the Corporation. The Corporation has met all reporting requirements established by the Financial Administration Act, including submission of a corporate plan, an operating budget, a capital budget, and this annual report.

The Corporation's internal auditor, who reports independently to the Chairman of the Board, has the responsibility for assessing the management systems and practices of the Corporation. The Auditor General of Canada conducts an independent examination of the financial statements of the Corporation and reports on his examination to the Minister of Energy, Mines and Resources.

The Board of Directors' Audit Committee, composed of directors who are not employees of the Corporation, reviews and advises the Board on the financial statements and the Auditor General's reports, the plans and reports related to special examinations, and oversees the activities of internal audit. The Audit Committee meets with management, the internal auditor and the Auditor General on a regular basis.

AUDITOR'S REPORT

THE HONOURABLE PATRICIA CARNEY, P.C., M.P.
MINISTER OF ENERGY, MINES AND RESOURCES

I have examined the balance sheet of Atomic Energy of Canada Limited as at March 31, 1986 and the statements of income, contributed capital, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the charter and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
May 9, 1986

BALANCE SHEET AS AT MARCH 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Current		
Cash and short-term deposits	55,495	122,664
Accounts receivable	126,858	122,224
Inventories (Note 3)	61,667	54,503
	244,020	299,391
Non-current inventory (Note 3)	1,579	11,907
Long-term receivables (Note 4)	699,163	748,343
Investment and deferred costs (Note 5)	110,280	111,509
Property, plant and equipment (Note 6)	51,955	54,556
	1,106,997	1,225,706

LIABILITIES	1986	1985
Current		
Accounts payable and accrued liabilities	133,759	159,692
Current portion of long-term debt	24,171	34,215
	157,930	193,907
Deferred revenue	64,255	63,552
Provision for contracts in progress	25,024	62,560
Accrued employee termination benefits	34,084	35,662
Long-term debt (Note 7)	648,898	721,867
	930,191	1,077,548
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—75,000 common shares		
Issued—54,000 common shares	15,000	15,000
Contributed capital	69,795	58,641
Retained earnings	92,011	74,517
	176,806	148,158
	1,106,997	1,225,706

Approved by the Board:

ROBERT DESPRÉS
Director

JAMES DONNELLY
Director

ATOMIC ENERGY OF CANADA LIMITED—*Continued*

STATEMENT OF INCOME FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Commercial operations		
Revenue		
Nuclear supply and services	93,269	146,271
Radiation equipment and isotopes	92,617	82,546
Interest	74,435	80,276
	260,321	309,093
Costs and expenses		
Cost of sales and services	119,467	183,041
Product development	10,332	11,105
Marketing and administration	40,593	37,834
Interest	62,231	69,556
	232,623	301,536
Operating profit	27,698	7,557
Research and development operations		
Expenses	211,683	223,867
Less: revenue	24,867	27,391
parliamentary appropriations	176,612	195,013
Net expenses	10,204	1,463
Discontinued operations		
Expenses	58,161	30,774
Less: revenue		3,635
parliamentary appropriations	58,161	16,517
transfer to contributed capital		14,291
Net revenue		3,669
Net income for the year	17,494	9,763

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Operating activities		
Net income for the year	17,494	9,763
Depreciation and amortization	6,175	5,177
	23,669	14,940
Decrease (increase) in operating working capital	(26,173)	42,070
Cash from (used in) operations	(2,504)	57,010
Investing activities		
Heavy water production	(29,193)	(104,634)
Parliamentary appropriations for heavy water production	29,193	104,634
Acquisition of commercial property, plant and equipment net of disposal	(4,947)	(5,419)
Increase in deferred costs	(6,985)	(12,110)
Cash invested	(11,932)	(17,529)
Financing activities		
Repayment of long-term debt	(83,013)	(51,656)
Proceeds from long-term notes receivable	19,126	18,791
Parliamentary appropriations for loan principal repayment	11,154	9,372
Reduction in contributed capital		(14,291)
Cash used in financing	(52,733)	(37,784)
Increase (decrease) in cash and short-term deposits	(67,169)	1,697
Cash and short-term deposits at beginning of the year	122,664	120,967
Cash and short-term deposits at end of the year	55,495	122,664

STATEMENT OF CONTRIBUTED CAPITAL FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Balance at beginning of the year	58,641	63,560
Parliamentary appropriations for loan principal repayment	11,154	9,372
	69,795	72,932
Douglas Point prototype reactor shutdown costs not funded by parliamentary appropriations		14,291
Balance at end of the year	69,795	58,641

STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Balance at beginning of the year	74,517	64,754
Net income for the year	17,494	9,763
Balance at end of the year	92,011	74,517

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis. The most significant accounting policies are summarized below:

Foreign currency translation

Transactions denominated in a foreign currency are translated into Canadian dollars at the exchange rate in effect at the date of the transaction, except those covered by forward exchange contracts, where the rate established by the terms of the contract is used. Monetary assets and liabilities outstanding at the balance sheet date are adjusted to reflect the exchange rate in effect at that date. Exchange gains and losses arising from the translation of foreign currencies are included in income.

Inventories

Radiation equipment and materials are valued at the lower of average cost and net realizable value. Maintenance and general supplies are valued at cost. Heavy water is valued at the lower of average cost, less related parliamentary appropriations, and net realizable value. Heavy water inventory not expected to be sold within the next year or used in operations is classified as non-current.

Investment and deferred costs

Investment and deferred costs are recorded at cost and charged to the revenue derived therefrom over the expected period of revenue generation.

Property, plant and equipment

Property, plant and equipment of a research and development nature are recorded at cost and expensed in the year of acquisition.

ATOMIC ENERGY OF CANADA LIMITED—*Continued*

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*Concluded*

Other property, plant and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of the asset as follows:

Machinery and equipment	— 3 to 20 years
Buildings	— 20 to 50 years

Costs of decommissioning nuclear facilities are expensed when incurred.

Long-term contracts

Revenue and costs on long-term contracts are accounted for by the percentage of completion method, applied on a conservative basis to recognize the absence of certainty on these contracts. Full provision is made for all estimated losses to completion of contracts in progress.

Parliamentary appropriations

The Government of Canada, through parliamentary appropriations, funds certain operations of the Corporation as outlined in Note 2. The parliamentary appropriations are offset against the applicable expenditures except for the portion used to discharge certain loan principal which is recognized as an increase in contributed capital.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the plan are limited to an amount equal to the employees' contributions on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to income on a current basis.

Employee termination benefits

Employees are entitled to specific termination benefits as provided for under collective agreements and conditions of employment. The liability for these benefits is charged to income as benefits accrue to the employees.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1986

1. Accounting policies

   The summary of significant accounting policies is an integral part of these financial statements.

2. Parliamentary appropriations

   Parliamentary appropriations were used during the year for the following purposes:

	1986	1985
	(in thousands of dollars)	
Research and development operations	176,612	195,013
Discontinued operations		
—Prototype reactors	18,331	11,053
—Heavy water plant closures	35,382	
—LaPrade plant protection	2,302	2,536
—Heavy water plant loan interest	2,146	2,928
	58,161	16,517
Heavy water production	29,193	104,634
Heavy water plant loan principal	11,154	9,372
	275,120	325,536

3. Inventories

	1986	1985
	(in thousands of dollars)	
Current		
Radiation equipment and materials	37,763	37,484
Heavy water	20,904	12,644
Maintenance and general supplies	3,000	4,375
	61,667	54,503
Non-current		
Heavy water	556,366	537,501
Less accumulated parliamentary appropriations (see below)	554,787	525,594
	1,579	11,907

Accumulated parliamentary appropriations are repayable, together with interest thereon, to the extent of future sales revenue. At March 31, 1986, no contracts had been finalized for the sale of heavy water funded by parliamentary appropriations.

4. Long-term receivables

	1986	1985
	(in thousands of dollars)	
Notes receivable from provincial utilities in respect of the financing of nuclear facilities, maturing through 2008 at interest rates varying from 7.795% to 9.706% (refer to Note 7 for related debt)	623,559	642,685
Contract receivables maturing through 1995 at fixed interest rates ranging from 7% to 10.5% and at fluctuating rates	96,064	123,269
Mortgages receivable and other	5,132	5,232
	724,755	771,186
Current portion	25,592	22,843
	699,163	748,343

5. Investment and deferred costs

	1986	1985
	(in thousands of dollars)	
Investment in Pickering 1 and 2 The Corporation, Ontario Hydro and the Province of Ontario are parties to an agreement for the construction and operation of Units 1 and 2 of the Pickering «A» nuclear generating station, with ownership of these units being vested in Ontario Hydro. Under the agreement, the Corporation is entitled to receive payments until the year 2001 based on the net operational advantage of the power generated by Pickering Units 1 and 2 as compared with the coal-fired Lambton Units 1 and 2	84,012	84,012
Deferred costs Costs incurred in modifying non-corporation owned facilities for revenue-producing purposes and other deferred costs	26,268	27,497
	110,280	111,509

Pickering Units 1 and 2 remain shut down for replacement of the pressure tubes and therefore the Corporation did not earn any revenue during the 1985 and 1986 years. As a result, no amortization of the investment was charged in either year. The reactors are currently scheduled to be back in operation in calendar 1987.

Amortization of deferred costs for the year amounted to $.5 million (1985—Nil).

ATOMIC ENERGY OF CANADA LIMITED—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1986—*Concluded*

6. Property, plant and equipment

	1986			1985
	Cost	Government funding and accumulated depreciation	Net	Net
	(in thousands of dollars)			
Commercial operations				
Land and improvements	2,409	822	1,587	1,699
Buildings	44,466	17,824	26,642	27,136
Machinery and equipment	38,089	17,223	20,866	22,478
	84,964	35,869	49,095	51,313
Research and development operations				
Land and improvements	9,642	9,642		
Buildings	68,368	65,508	2,860	3,243
Reactors and equipment	244,919	244,919		
Construction in progress	46,426	46,426		
	369,355	366,495	2,860	3,243
Discontinued operations				
Prototype reactors	170,557	170,557		
Heavy water plants	802,881	802,881		
	1,427,757	1,375,802	51,955	54,556

Depreciation of commercial property, plant and equipment for the year ended March 31, 1986, amounted to $5.7 million (1985—$5.2 million).

Research and development property, plant and equipment expensed in the 1986 year amounted to $17.9 million (1985—$23.9 million).

The decommissioning of nuclear research and prototype facilities is an integral part of the nuclear program. Currently the Gentilly 1 and Douglas Point prototype reactors are shut down. A program has been developed and implemented, with an estimated cost to complete of $12.4 million, to bring the facilities to a safe storage mode as the initial stage of the decommissioning program. The future net decommissioning costs of nuclear research and prototype facilities cannot be quantified at this time due to the uncertainty as to the exact nature, timing and ultimate disposal alternatives. In accordance with the Corporation's accounting policy, any such costs will be expensed when incurred.

The closure of the heavy water plants at Glace Bay and Port Hawkesbury commenced during the year and will be completed next year. All closure costs are funded by parliamentary appropriations. The estimated cost to complete this program is $27.0 million.

7. Long-term debt

	1986	1985
	(in thousands of dollars)	
Loans from Government of Canada		
To finance provincial utility nuclear facilities, maturing through 2008 at fixed interest rates varying from 6.687% to 9.706% (refer to Note 4 for related receivables)	621,643	642,003
To finance leased heavy water and other assets, maturing through 2003 at interest rates from 4.125% to 10%	27,142	78,368
Loans from third parties		
To finance the purchase of the heavy water plants		
Glace Bay—Maturing through 1998 at the imputed interest rate of 8.875%	24,284	25,711
Port Hawkesbury—Maturing on April 1st, 1985, at the imputed interest rate of 7.375%		10,000
	673,069	756,082
Current portion	24,171	34,215
	648,898	721,867

Loan repayments required over the succeeding years are as follows (millions of dollars): 1987—$24.2; 1988—$45.9; 1989—$28.2; 1990—$30.4; 1991—$32.9; and subsequent to 1991—$511.5.

8. Related party transactions

In addition to the transactions disclosed elsewhere in these financial statements, the Corporation had the following transactions with the Government of Canada:

	1986	1985
	(in thousands of dollars)	
Repayment of loans and interest	134,757	119,715
Payments to the Public Service Superannuation Plan	14,526	15,651

In the normal course of business, the Corporation also enters into various transactions with the Government of Canada, its agencies and other Crown corporations.

9. Comparative figures

Where appropriate, the prior year's comparative figures have been reclassified to conform with the presentation adopted in the current year.

SUMMARY PAGE

BANK OF CANADA

MANDATE

The Bank of Canada is responsible for the formulation and implementation of monetary policy in Canada and acts as the government's fiscal agent. The Bank has the sole right to issue notes intended for circulation in Canada and it fixes the percentage of the deposit liabilities of chartered banks which they must maintain as secondary reserves. It conducts open-market operations, buying or selling securities as, in its judgement, the progress of Canada's economy requires. As fiscal agent it handles the issue of securities of Canada and payment of related interest and principal; it also cashes and negotiates cheques drawn on the Receiver General. It administers the Exchange Fund Account and acts as agent for the government's operations in the foreign exchange market.

BACKGROUND

The Bank was created by its Act in 1934 as Canada's central bank.

CORPORATION DATA

HEAD OFFICE	Wellington Street Ottawa, Ontario K1A 0G9
STATUS	An agent of Her Majesty; exempted from the provisions of Divisions I to IV of Part XII of the *Financial Administration Act.*
APPROPRIATE MINISTER	The Honourable Michael Wilson, P.C., M.P.
DEPARTMENT	Finance
DATE AND MEANS OF INCORPORATION	1934, by *The Bank of Canada Act* (R.S.C. 1970, C.13)
CHIEF EXECUTIVE OFFICER	G.K. Bouey, Governor
AUDITOR	Thorne Riddell

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	**1984**	**1983**	**1982**
Expenses, before depreciation	135	118	110	102

Note: This Financial Summary is cursory compared with that for any other corporation in this Report. This is appropriate because the nature of the operations of a central bank makes its financial statements unique in their import. For example: the Bank's assets are mostly securities of Canada and its revenues are mostly the interest paid to it by Canada on those securities. Therefore, the substantial net income (1985, $1,880 million; 1984, $1,852 million) which the Bank pays to Canada is simply completion of a circular flow of cash, diminished by the amount of the Bank's operating expenses.

BANK OF CANADA

AUDITORS' REPORT

We have examined the statement of assets and liabilities of the Bank of Canada as at December 31, 1985 and the statement of revenue and expense for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Bank as at December 31, 1985 and the results of its operations for the year then ended in accordance with the accompanying summary of significant accounting policies, applied on a basis consistent with that of the preceding year.

Raymond, Chabot, Martin, Paré & Associés
Thorne Riddell

Ottawa, Canada
January 24, 1986

STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 1985
(with comparative figures for 1984)
(in thousands of dollars)

ASSETS	1985	1984
Deposits payable in foreign currencies		
U.S.A. dollars	533,581	183,699
Other currencies	35,723	3,320
	569,304	187,019
Advances to members of the Canadian Payments Association (Note 2)	3,468,756	50,000
Investments—At amortized values (Note 3)		
Treasury bills of Canada	3,983,915	3,483,072
Other securities issued or guaranteed by Canada maturing within three years	3,459,594	4,654,031
Other securities issued or guaranteed by Canada not maturing within three years	8,223,748	9,015,242
Other investments	2,633	476,448
	15,669,890	17,628,793
Bank premises (Note 4)	118,471	93,324
Cheques drawn on members of the Canadian Payments Association	767,344	531,524
Accrued interest on investments	345,224	401,189
Collections and payments in process of settlement Government of Canada (net)	145,771	36,318
Other assets	49,830	5,470
	21,134,590	18,933,637

LIABILITIES	1985	1984
Capital paid up (Note 5)	5,000	5,000
Rest fund (Note 6)	25,000	25,000
Notes in circulation	16,671,992	15,236,012
Deposits		
Government of Canada	313,416	54,950
Chartered banks	2,201,122	2,772,117
Other members of the Canadian Payments Association	205,528	36,585
Other deposits	168,238	230,291
	2,888,304	3,093,943
Liabilities payable in foreign currencies		
Government of Canada	371,943	12,642
Other	27	25
	371,970	12,667
Bank of Canada cheques outstanding	935,793	552,701
Other liabilities (Note 7)	236,531	8,314
	21,134,590	18,933,637

See accompanying notes to the financial statements.

G. K. BOUEY
Governor

A. C. LAMB
Chief Accountant

BANK OF CANADA—*Continued*

STATEMENT OF REVENUE AND EXPENSE
YEAR ENDED DECEMBER 31, 1985
(with comparative figures for 1984)
(in thousands of dollars)

	1985	1984
Revenue		
Revenue from investments and other sources net of interest paid on deposits of $4,552 ($6,724 in 1984)	2,027,447	1,981,564
Expense		
Salaries[1]	57,018	51,762
Contributions to pension and insurance funds[2]	8,073	6,516
Other staff expenses[3]	1,564	1,871
Directors' fees	70	98
Auditors' fees and expenses	380	338
Taxes—Municipal and business	7,496	7,146
Banknote costs	33,007	26,408
Data processing and computer costs	5,142	3,845
Premises maintenance—Net of rental income[4]	12,585	10,827
Printing of publications	459	568
Other printing and stationery	1,831	1,927
Postage and express	2,106	1,785
Telecommunications	1,817	1,668
Travel and staff transfers	2,112	1,871
Other expenses	1,770	1,223
	135,430	117,853
Depreciation on buildings and equipment	11,986	11,526
	147,416	129,379
Net revenue payable to Receiver General for Canada	1,880,031	1,852,185

See accompanying notes to the financial statements.

[1] Salaries include overtime and are for Bank staff other than those engaged in premises maintenance. The number of employee years worked by such staff (including temporary, part-time and overtime work) was 2,215 in 1985 compared with 2,129 in 1984.

[2] Contributions to pension and insurance funds for Bank staff other than those engaged in premises maintenance.

[3] Other staff expenses include retirement allowances, cafeteria expenses, educational training costs and medical expenses.

[4] Premises maintenance comprises building and equipment maintenance expenses including related staff costs.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1985

1. Significant Accounting Policies

The financial statements of the Bank conform to the disclosure and accounting requirements of the Bank of Canada Act and the Bank's by-laws. The significant accounting policies of the Bank are:

(a) Revenues and Expenses

Revenues and expenses have been accounted for on the accrual basis except for interest on advances to a bank ordered to be wound up where interest is recorded as received.

(b) Investments

Investments, consisting mainly of Government of Canada treasury bills and bonds, are recorded at cost adjusted for amortization of purchase discounts and premiums. The amortization as well as gains and losses on disposition are included in revenue.

(c) Translation of Foreign Currencies

Assets and liabilities in foreign currencies have been translated to Canadian dollars at the rates of exchange prevailing at the year-end. Gains and losses from translation of, and transactions in, foreign currencies are included in revenue.

(d) Bank Premises

Bank premises, consisting of land, buildings and equipment, are recorded at cost less accumulated depreciation. Depreciation is charged on the declining balance method using the following annual rates:

Buildings	5%
Computer equipment	35%
Other equipment	20%

2. Advances to Members of the Canadian Payments Association

Advances as at December 31, 1985 include a total of $1,575,555,885 provided to the Canadian Commercial Bank and the Northland Bank for which winding-up orders have been issued by the courts.

During 1985 these two banks encountered liquidity problems and borrowed from the Bank of Canada against the security of certain of their loan portfolios and pledges of securities. In September 1985 curators were appointed for both these banks and applications were made to courts to wind them up. The orders for winding-up were made on September 3, 1985 for the Canadian Commercial Bank and on January 20, 1986 for the Northland Bank. The liquidators appointed by the courts were also appointed as agents of the Bank of Canada for the purpose of realizing on the loan portfolios held as security against the respective advances.

To ensure the maximum return on the realization of the loan portfolios, the liquidations may extend over several years. The ultimate realizable value will depend on the economic circumstances prevailing at the time each of the loans in the portfolios is liquidated. On the basis of the information available at December 31, 1985, it is the opinion of the Bank of Canada that its advances will be fully repaid from the proceeds of the liquidations.

3. Investments

Included in investments are securities of the Government of Canada totalling $75,145,489 ($40,102,870 in 1984) held under Purchase and Resale Agreements.

BANK OF CANADA—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

4. Bank Premises

	1985			1984
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Land and buildings	112,876	49,676	63,200	66,395
Computer equipment	22,683	12,962	9,721	7,993
Other equipment	29,973	16,861	13,112	8,335
	165,532	79,499	86,033	82,723
Projects in progress	32,438		32,438	10,601
	197,970	79,499	118,471	93,324

5. Capital

The authorized capital of the Bank is $5,000,000 divided into 100,000 shares of the par value of $50 each. The shares are fully paid and in accordance with the Bank of Canada Act have been issued to the Minister of Finance, who is holding them on behalf of Canada.

6. Rest Fund

The rest fund was established by the Bank of Canada Act and represents the general reserve of the Bank. In accordance with the Act, the rest fund was accumulated out of net revenue until it reached the stipulated maximum amount of $25,000,000 in 1955. Subsequently all net revenues have been paid to the Receiver General for Canada.

7. Other Liabilities

As at December 31, 1985, other liabilities include $230,031,132 of net revenue paid to the Receiver General for Canada subsequent to year-end.

8. Contingent Liability

The Bank has agreed with the Bank for International Settlements to participate in an international initiative to provide credit facilities to the International Monetary Fund. The Bank's potential liability under this agreement, which was extended in 1985 to June 1988, is limited to the placing of deposits with the Bank for International Settlements, if required, to finance loans made under the facility. Pursuant to the agreement, the Bank is contingently liable in the amount of SDR 180,000,000 ($276,465,594 at the December 31, 1985 exchange rate), the maximum liability under the agreement.

SUMMARY PAGE

CANADA COUNCIL

MANDATE

To foster and promote the study, enjoyment and production of works in the arts; to coordinate UNESCO activities in Canada and Canadian participation in various UNESCO activities abroad.

BACKGROUND

The Council receives a parliamentary grant each year for its operations. As well, it has income from the $50 million Endowment Fund which was created by its Act and from monies and properties donated to the Council and administered as Special Funds. It is a charitable organization for the purposes of the *Income Tax Act*.

CORPORATION DATA

HEAD OFFICE	99 Metcalfe Street Ottawa, Ontario K1P 5L6
STATUS	— exempt from Divisions I to IV of Part XII of the *Financial Administration Act*; not listed in the schedules to the Act — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Flora MacDonald, P.C., M.P.
DEPARTMENT	Communications
DATE AND MEANS OF INCORPORATION	1957, by *the Canada Council Act* (R.S.C. 1970, C.3)
CHAIRMAN	Maureen Forrester
CHIEF EXECUTIVE OFFICER	Peter Roberts
AUDITOR	Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Assets — Endowment Account	107.4	97.3	96.6	81.4
— Special Funds	35.9	31.7	29.4	20.0
Cash from Canada in the period				
— budgetary	74.2	72.6	65.6	59.9
— non-budgetary	nil	nil	nil	nil

CANADA COUNCIL

AUDITOR'S REPORT

TO THE CANADA COUNCIL AND
THE HONOURABLE MARCEL MASSE, P.C., M.P.
MINISTER OF COMMUNICATIONS

I have examined the balance sheets of the Endowment Account and Special Funds of the Canada Council as at March 31, 1986 and the statements of revenue and expenditure and equity of the Endowment Account and Special Funds and the statement of changes in financial position of the Endowment Account for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Council as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 10, 1986

ENDOWMENT ACCOUNT

BALANCE SHEET AS AT MARCH 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Cash and short-term deposits	6,814	5,186
Accrued interest	1,671	1,442
Accounts receivable	271	125
Prepaid expenses	393	300
Investments (Note 4)	87,124	80,457
Equipment and leasehold improvements (Note 5)	809	266
Works of art	10,327	9,516
	107,409	97,292

LIABILITIES	1986	1985
Bank overdraft		1,479
Approved grants payable	19,285	18,451
Accounts payable and accrued liabilities	1,994	1,510
Deferred credits (Note 6)	753	210
Due to Special Funds (Note 7)	2,245	2,197
Due to Special Trusts (Note 8)	873	54
Provision for employee termination benefits	1,049	1,015
	26,199	24,916
EQUITY		
Fund capital		
Principal, established pursuant to Section 14 of the Act	50,000	50,000
Accumulated net gains on disposal of investments	13,850	9,586
	63,850	59,586
Contributed surplus—Works of art	10,327	9,516
	74,177	69,102
Surplus		
Appropriated	2,300	2,300
Unappropriated	4,733	974
	7,033	3,274
	81,210	72,376
	107,409	97,292

Approved by the Council:

PETER BROWN
Treasurer

MAUREEN FORRESTER
Chairman

CANADA COUNCIL—*Continued*

SPECIAL FUNDS

BALANCE SHEET AS AT MARCH 31, 1986
(in thousands of dollars)

ASSETS	1986	1985	LIABILITIES	1986	1985
Cash and short-term deposits	3,077	1,527	Bank overdraft		154
Accrued interest	625	504	Approved grants payable	3,189	2,415
Investments (Note 4)	29,973	27,446		3,189	2,569
Due from Endowment Account (Note 7)	2,245	2,197			
			EQUITY		
			Fund capital		
			Principal	30,256	27,809
			Accumulated net gains on disposal of investments	1,936	881
				32,192	28,690
			Unappropriated surplus	539	415
				32,731	29,105
	35,920	31,674		35,920	31,674

Approved by the Council:

PETER BROWN
Treasurer

MAUREEN FORRESTER
Chairman

STATEMENT OF REVENUE AND EXPENDITURE
OF THE ENDOWMENT ACCOUNT
FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Revenue		
Parliamentary grants	74,244	72,614
Interest and dividends	10,470	10,601
Art Bank rental fees	670	596
Cancelled grants, approved in previous years, and refunds	471	334
	85,855	84,145
Expenditure		
Arts		
Grants and services	68,446	69,519
Administration (Schedule)	6,250	6,042
Works of art	811	712
	75,507	76,273
Canadian Commission for UNESCO		
Administration (Schedule)	838	852
Grants	143	189
	981	1,041
General administration (Schedule)	5,608	5,888
	82,096	83,202
Excess of revenue over expenditure for the year	3,759	943

CANADA COUNCIL—*Continued*

STATEMENT OF EQUITY OF THE ENDOWMENT ACCOUNT FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	Fund capital				Contributed surplus		Surplus			
	Principal	Accumulated net gains on disposal of investments	Total 1986	Total 1985	Total 1986	Total 1985	Appropriated	Unappropriated	Total 1986	Total 1985
Balance at beginning of the year	50,000	9,586	59,586	58,773	9,516	8,804	2,300	974	3,274	2,331
Net gains on disposal of investments		4,264	4,264	813						
Works of art purchased during the year					811	712				
Excess of revenue over expenditure for the year								3,759	3,759	943
Balance at end of the year	50,000	13,850	63,850	59,586	10,327	9,516	2,300	4,733	7,033	3,274

STATEMENT OF REVENUE, EXPENDITURE AND EQUITY OF THE SPECIAL FUNDS (NOTE 2) FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	Izaak Walton Killam Memorial	Killam Special Scholarship	Jean A. Chalmers	Molson Prize	Lynch-Staunton	Frances and J.P. Barwick	John B.C. Watkins	Vida Peene	Coburn Fellowship Trust	Total 1986	Total 1985
Revenue and expenditure											
Revenue											
Interest and dividends	1,585	1,300	48	107	111	8	15	57		3,231	2,881
Expenditure											
Grants	1,232	1,036	44	100	78			57		2,547	2,579
Administration	141	147	8	4						300	226
	1,373	1,183	52	104	78			57		2,847	2,805
Excess of revenue over expenditure (expenditure over revenue)	212	117	(4)	3	33	8	15			384	76
Equity											
Fund capital											
Principal											
Balance at beginning of the year	13,171	11,799	500	1,000	699	40		600		27,809	26,265
Cash received		2,114				53			20	2,187	1,310
Net income capitalized	144	116								260	234
Balance at end of the year	13,315	14,029	500	1,000	699	93		600	20	30,256	27,809
Accumulated net gains on disposal of investments											
Balance at beginning of the year	472	224		66	119					881	976
Net gains (losses) on disposal of investments	515	427		56	57					1,055	(95)
Balance at end of the year	987	651		122	176					1,936	881
	14,302	14,680	500	1,122	875	93		600	20	32,192	28,690
Unappropriated surplus											
Balance at beginning of the year	1	1	32	2	279		100			415	573
Excess of revenue over expenditure (expenditure over revenue)	212	117	(4)	3	33	8	15			384	76
Net income capitalized	(144)	(116)								(260)	(234)
Balance at end of the year	69	2	28	5	312	8	115			539	415
	14,371	14,682	528	1,127	1,187	101	115	600	20	32,731	29,105

CANADA COUNCIL—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION
OF THE ENDOWMENT ACCOUNT
FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Funds provided by (applied to)		
Operations	6,227	(1,238)
Investment	(3,120)	2,588
Increase in funds	3,107	1,350
Funds at beginning of year	3,707	2,357
Funds (cash and short-term deposits) at end of year	6,814	3,707
Operations		
Excess of revenue over expenditure	3,759	943
Items not affecting cash		
Depreciation and amortization	174	204
Employee termination benefits	34	188
Grants payable	834	2,200
Increase (Decrease) in amount due to Special Funds and Special Trusts	867	(4,981)
Other items not affecting cash	559	208
Funds provided by (applied to) operation activities	6,227	(1,238)
Investment		
Acquisition of equipment and leasehold improvements	(717)	(141)
Decrease (increase) in investments	(6,667)	1,916
Increase in accumulated net gains on disposal of investments	4,264	813
Funds (applied to) generated by investment activities	(3,120)	2,588

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986

1. Authority and operations

The Canada Council was established by the Canada Council Act in 1957 which authorized the creation of an Endowment Fund of $50 million. Except for the annual parliamentary grant, monies or properties donated to the Council pursuant to Section 20 of the Act are generally accounted for as Special Funds. The Council is not an agent of Her Majesty. Its objectives are to foster and promote the study, enjoyment and production of works in the arts.

2. Special funds

(a) Izaak Walton Killam Memorial

A bequest of $12,339,615 in cash and securities was received from the estate of the late Mrs. Dorothy J. Killam for the establishment of the Izaak Walton Killam Memorial Fund for Advanced Studies "to provide scholarships for advanced study or research at universities, hospitals, research or scientific institutes, or other equivalent or similar institutions both in Canada and in other countries in any field of study or research other than the 'arts' as presently defined in the Canada Council Act and not limited to the 'humanities and social sciences' referred to in such Act."

The bequest contains the following provisions: "the Fund shall not form part of the Endowment Account or otherwise be merged with any assets of the Council"; and "in the event that the Canada Council should ever be liquidated or its existence terminated or its powers and authority changed so that it is no longer able to administer any Killam trust, the assets forming any such Killam trust shall thereupon be paid over the certain universities which have also benefited under the will."

The cash and securities received and the proceeds have been invested in a separate portfolio.

(b) Killam Special Scholarship

A gift of $4,353,609 was received from the estate of the late Mrs. Dorothy J. Killam for the establishment of a Special Scholarship Fund. The gift consisted of preferred shares in a Canadian company. The proceeds on the redemption of these shares have been invested and the income therefrom is available to provide fellowship grants to Canadians for advanced study or research in the fields of medicine, science and engineering at universities, hospitals, research or scientific institutions or other equivalent or similar institutions in Canada. The fund also includes common shares in a company whose major assets have been sold. The Council has received $2.1 million during the year (1985—$.7 million). This was the final distribution.

(c) Jean A. Chalmers

An endowment of $500,000 in cash was received from Mrs. Floyd S. Chalmers to establish a special Jean A. Chalmers Fund for the crafts. In consultation with the Canadian Crafts Council, the income of the fund is used to provide a small number of special project grants for the development or advancement of the crafts in Canada.

(d) Molson Prize

Gifts of $1,000,000 were received from the Molson Foundation for the establishment of the Molson Prize Fund. The income of the fund is used for awarding cash prizes to Canadians "for outstanding achievement in the fields of the Arts, the Humanities or the Social Sciences that enriches the cultural or intellectual heritage of Canada or contributes to national unity". There is no restriction placed on the recipient as to the use of the prize.

(e) Lynch-Staunton

This fund was established by a bequest in cash of $699,066 received from the estate of the late V.M. Lynch-Staunton, the income from which is available for the regular programmes of the Council.

(f) Frances Elizabeth Barwick and J.P. Barwick

A bequest of $40,000 in cash was received from the estate of the late Mrs. Frances Elizabeth Barwick with the condition that "such bequest be applied for the benefit and encouragement of the arts". A bequest of $53,000 was also received from the estate of J.P. Barwick "for the benefit of the musical division of the arts and for the encouragement of the musical arts". The total fund is still to be used for the benefit of the musical division.

(g) John B.C. Watkins

This fund was established by a bequest consisting of the net income from the residue of the estate of the late John B.C. Watkins to provide scholarships for postgraduate studies in specified countries.

(h) Vida Peene

This fund was established by a bequest in cash of $599,761 received from the late Vida Peene to provide payments to specified organizations.

(i) Funds will eventually be received from the following bequests:

(a) Edith Davis Webb
This fund, estimated at $400,000, is intended "for the purpose of making grants or establishing scholarships for musical study in such manner as the Council shall determine".

CANADA COUNCIL—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Continued*

(b) Coburn Fellowship Trust

This fund, the amount of which cannot be determined at this time, is to provide for exchanges of scholars between Israel and Canada. It consists of an amount of $100 from K. Coburn to establish this fund as well as a $20,000 donation received from F.E. Coburn.

3. Significant accounting policies

(a) Investments

Bonds, debentures, equities and mortgages are recorded at cost. The portfolios of two Special Funds (Molson Prize and Lynch-Staunton) are merged with the Endowment Account. The participation of each fund is calculated on the basis of market value. Quarterly adjustments are made to take into consideration any capital withdrawals and additional investments. Interest, dividends, gains and losses on disposal of investments are allocated to each fund based on the percentages established at the beginning of each quarter.

(b) Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost and depreciated over their estimated useful lives on the straight-line method, as follows:

Equipment	3 to 5 years
Leasehold improvements	term of the lease (maximum 10 years)

(c) Works of art

Works of art are recorded at cost.

(d) Employee termination benefits

Employees are entitled to specific termination benefits as provided for under the Council's policy and conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

(e) Gains and losses on disposal of investments

Pursuant to subsection 19(2) of the Act, net gains on disposal of investments are credited to the fund capital—Accumulated net gains on disposal of investments. Net losses on disposal of investments are charged against this account to the extent of the balance available therein. In the event that losses exceed the balance available in the account, the excess is recorded as an expenditure in the year of realization.

(f) Contributed surplus

Amounts paid during the year for the purchase of works of art are expensed. Such purchases are then capitalized as contributed surplus—Works of art and no depreciation is recorded.

(g) Appropriated surplus

The Council has established a reserve to reduce the erosion of value of the original endowment due to inflation. Any changes in this account are approved by the Council.

(h) Capitalization of net income of Special Funds

The Council capitalizes 10% of the revenue less administration expenditure of the Izaak Walton Killam Memorial Fund for Advanced Studies and the Killam Special Scholarship Fund, in accordance with advice received from the trustees of these Funds in order to preserve the equity of these Funds for future beneficiaries. However, for the purposes of the Funds, the Council reserves the right to draw at any time on the accumulated net income capitalized.

(i) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Council contribute equally to the cost of the Plan. This contribution represents the total liability of the Council. Contributions with respect to current service are expensed on a current basis.

(j) Grants

Grants approved by the Council are recorded as expenditure in the year determined by the Treasurer in consultation with the Arts Division. Cancelled grants, approved in previous years, and refunds are shown as revenue in the Endowment Account. For Special Funds, such items are deducted from the grants expenditure.

4. Investments

	1986		1985	
	Cost	Market value	Cost	Market value
	(in thousands of dollars)			
Endowment Account				
Bonds and debentures	53,844	60,750	48,895	50,792
Equities	30,612	48,507	28,443	38,739
Mortgages	2,668	2,464	3,119	2,626
	87,124	111,721	80,457	92,157
Special Funds				
Bonds and debentures	18,718	21,084	17,343	18,055
Equities	10,867	16,182	9,697	12,038
Mortgages	388	298	406	273
	29,973	37,564	27,446	30,366

5. Equipment and leasehold improvements

	1986			1985
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
	(in thousands of dollars)			
Equipment	1,007	502	505	200
Leasehold improvements	568	264	304	66
	1,575	766	809	266

6. Deferred credits

	1986	1985
	(in thousands of dollars)	
Deferred rent	509	
Deferred revenue—Art Bank	244	210
	753	210

The deferred rent amount represents funds received from the Council's present landlord to cover rental payments owed by the Council under its old lease for the period from April to October 1986.

CANADA COUNCIL—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

7. Due to Special Funds/Due from Endowment Account

These accounts represent investments and accrued interest relating to the three special funds merged with the Endowment portfolio, less charges of the Killam and Chalmers Funds.

	1986	1985
	(in thousands of dollars)	
Lynch-Staunton	1,249	1,173
Molson Prize	1,235	1,169
Frances Elizabeth Barwick and J.P. Barwick	101	40
	2,585	2,382
Killam and Chalmers Funds	(340)	(185)
	2,245	2,197

8. Due to Special Trust

These funds have been accounted for separately due to special conditions related to the donations.

(i) Glenn Gould Prize Fund

The Council received $475,113 from the Glenn Gould Memorial Foundation to provide a prize of $50,000 every three years (funds permitting) to an outstanding individual for his/her original contribution in the field of Music and Communications. Since inception, the fund earned $30,061, and the balance stood at $505,174 at March 31, 1986.

(ii) Joseph S. Stauffer Fund

During the year, the Estate of Joseph S. Stauffer donated $350,000 to Council to establish this fund, the income from which is to provide prizes to encourage promising young Canadians in the fields of music, the visual arts and literature. The fund earned $18,410 during the year and the value of the fund was $368,410 at March 31, 1986.

9. Lease commitments

The Council is a party to a long term lease in respect to rental accommodation. The aggregate minimum annual rental is as follows:

	(in thousands of dollars)
1987	235
1988	1,410
1989	1,410
1990	1,410
1991	1,410

Based on the provisions of the lease agreement, a rent-free period to January 1987 is provided.

10. Comparative figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

SCHEDULE OF ADMINISTRATION EXPENDITURE
OF THE ENDOWMENT ACCOUNT
FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	Arts	Canadian Commission for UNESCO	General	Total 1986	Total 1985
Salaries and employee benefits	5,262	643	3,215	9,120	8,815
Rent and maintenance	171		628	799	1,041
Staff travel	576	57	89	722	700
Communications	122	14	386	522	695
Office supplies and expenses	21	22	303	346	166
Professional services	2	12	285	299	388
Council meetings including members' honoraria	16	64	162	242	236
Printing, publications and duplicating	17	19	170	206	320
Depreciation and amortization			174	174	204
Data processing	5	6	131	142	114
Safekeeping charges			42	42	56
Freight and storage	42			42	22
Miscellaneous	16	1	23	40	25
	6,250	838	5,608	12,696	12,782

SUMMARY PAGE

CANADA DEPOSIT INSURANCE CORPORATION

MANDATE

To provide limited insurance in respect of individuals' deposits with federal institutions (banks, trust and loan companies) and approved provincial institutions (trust and loan companies).

BACKGROUND

Established by the *Canada Deposit Insurance Corporation Act* in 1967, the corporation by 1982 accumulated, from premiums received, substantial reserves in its Deposit Insurance Fund. Recent payments to depositors of insolvent financial institutions, however, caused this fund to have a net deficit position.

CORPORATION DATA

HEAD OFFICE	1808 — 112 Kent Street P.O. Box 2340, Station D Ottawa, Ontario K1P 5W5
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Michael Wilson, P.C., M.P.
DEPARTMENT	Finance
DATE AND MEANS OF INCORPORATION	*The Canada Deposit Insurance Corporation Act* (R.S.C. 1970, C. C-3, as amended).
CHIEF EXECUTIVE OFFICER	Charles C. de Léry
CHAIRMAN	Ronald McKinlay
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	1984 (restated)	1983	1982
At the end of the year				
Total Assets	1,676	830	1,157	255
Obligations to the private sector	1,034	975	805	nil
Obligations to Canada	956	nil	30	nil
Equity of Canada*	(1,235)	(827)	nil	nil
Cash from Canada in the year				
— budgetary	nil	nil	nil	nil
— non-budgetary, net	956	(30)	30	nil

* Represents deficiency in the Insurance Fund.

CANADA DEPOSIT INSURANCE CORPORATION

AUDITOR'S REPORT

THE HONOURABLE MICHAEL WILSON, P.C., M.P.
MINISTER OF FINANCE

I have examined the balance sheet of the Canada Deposit Insurance Corporation as at December 31, 1985 and the statements of investment and administrative operations, deposit insurance fund and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting policy as described in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements, have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canada Deposit Insurance Corporation Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
March 3, 1986

BALANCE SHEET
AS AT DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984 (restated)
Treasury bills and term deposits	64,091	78,552
Premiums and other accounts receivable	16,951	12,388
Accrued interest on treasury bills	100	541
Income taxes recoverable (Note 4)	44,025	43,571
Mortgages	1,039	2,224
Loans to member institutions (Note 5)	412,133	491,359
Claims in respect of insured deposits (Note 6)	1,137,824	200,974
Furniture, equipment and leasehold improvements	206	186
	1,676,369	829,795

LIABILITIES	1985	1984 (restated)
Bank indebtedness	10,532	21,366
Accounts payable	2,626	4,737
Due to member institutions	27,647	
Loans from member institutions	995,895	953,910
Loans from Consolidated Revenue Fund (Note 7)	956,211	
	1,992,911	980,013
General provision for loss (Note 8)	918,836	676,569
	2,911,747	1,656,582
DEPOSIT INSURANCE FUND		
Deficiency at year end	(1,235,378)	(826,787)
	1,676,369	829,795

Approved by the Board:

R.A. McKINLAY
Chairman

W.A. KENNETT
Director

CANADA DEPOSIT INSURANCE CORPORATION—*Continued*

STATEMENT OF INVESTMENT AND ADMINISTRATIVE OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984 (restated)
Interest revenue		
Insured deposits	4,638	
Treasury bills	3,835	11,352
Canada bonds		163
Mortgages	146	752
Other	256	123
	8,875	12,390
Expenses		
Interest—Consolidated Revenue Fund	35,101	692
Interest in respect of insured deposits	9,443	
Expenses directly related to the payment of insured depositors	3,028	
Inspection and other fees	2,226	1,629
General, administrative and other	1,008	1,008
Salaries and employee benefits	709	433
	51,515	3,762
Earnings (loss) before income taxes	(42,640)	8,628
Income taxes (recovery) (Note 4)		
Current		(37,316)
Deferred		(1,473)
		(38,789)
Net earnings (loss) from investment and administrative operations	(42,640)	47,417

STATEMENT OF DEPOSIT INSURANCE FUND FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984 (restated)
Deficiency beginning of year	826,787	332,105
Insurance operations		
Premiums	57,876	53,884
Interest on loans to member institutions	104,779	112,451
	162,655	166,335
Provision for loss	420,000	600,000
Interest on loans from member institutions	108,606	108,434
	528,606	708,434
Loss from insurance operations	365,951	542,099
Deficiency before net earnings (loss) from investment and administrative operations	1,192,738	874,204
Net earnings (loss) from investment and administrative operations	(42,640)	47,417
Deficiency, end of year	1,235,378	826,787

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984 (restated)
Source of funds		
Operations		
Net earnings (loss) from investment and administrative operations	(42,640)	47,417
Items not affecting funds		
Deferred income taxes		(1,473)
Net amortization of premiums and discounts		(77)
Depreciation and amortization	50	50
	(42,590)	45,917
Loans from member institutions	41,985	148,644
Interest on loans to member institutions	104,779	112,451
Loans from Consolidated Revenue Fund	956,211	
Repayment of loans to member institutions	100	
Decrease in investments —Canada bonds		20,000
—Other bonds and debentures		1,006
Recoveries of claims in respect of insured deposits	120,252	407
Increase in accounts payable		4,011
Increase in due to member institutions	27,647	
Premiums for the year	57,876	53,884
Realization of mortgages	1,185	7,021
Bank overdraft		21,366
Decrease in accrued interest	441	1,502
	1,267,886	416,209
Application of funds		
Loans to member institutions	98,607	120,165
Interest on loans from member institutions	108,606	108,434
Repayment of loans from Consolidated Revenue Fund		30,000
Increase in premiums and other accounts receivable	4,563	1,745
Bank overdraft	10,834	
Decrease in accounts payable	2,111	
Purchase of furniture, equipment and leasehold improvements	70	154
Payment of claims in respect of insured deposits	1,057,102	177,867
Decrease in income taxes payable		1,145
Increase in income taxes recoverable	454	43,571
	1,282,347	483,081
Decrease in treasury bills and term deposits	14,461	66,872
Treasury bills and term deposits at beginning of the year	78,552	145,424
Treasury bills and term deposits at end of the year	64,091	78,552

CANADA DEPOSIT INSURANCE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985

1. Authority and objective

The Corporation was established in 1967 by the Canada Deposit Insurance Corporation Act (the Act). It is a Crown corporation named in Schedule C Part I of the Financial Administration Act.

The Corporation's principal objective is to provide insurance on deposits with member institutions (banks, and federal and provincial trust and loan companies) up to $60,000 per depositor per institution. Under section 11 of the Act, the Corporation may acquire assets from, or advance funds to, member institutions to reduce or avert a threatened loss to the Corporation.

2. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

These financial statements do not reflect the assets, liabilities and operations of member institutions whose operations the Corporation is financing in order to secure an orderly wind down.

The more significant policies adopted are set out below.

Premium recognition

Premiums are based on insured deposits accepted by member institutions as at April 30 of each year and are collectible by December 31 of the year. Premiums are recognized when assessed.

General provision for loss

The general provision for loss reflects the Corporation's best estimate of losses in respect of member institutions against which the Corporation has or is certain to have a financial claim. This estimate includes consideration of losses expected in respect of claims arising from payments made to insured depositors and operations for the duration of the wind-down period of member institutions under management by agents (Note 5).

The general provision for loss is reduced by identified losses on loans to member institutions or claims in respect of insured deposits.

The general provision for loss does not include an estimated contingent liability for potential claims of depositors of any member institutions not specifically identified as being in difficulty as such claims would be impossible to estimate.

Loans to Member Institutions and Claims in Respect of Insured Deposits

Loans to member institutions and claims in respect of insured deposits are reported net of identified losses (Note 3).

Interest recognition

The Corporation charges interest on loans advanced directly or indirectly to member institutions that are operating under agency agreements. It ceases to charge interest when a member institution is placed in liquidation. It charges interest on other loans in accordance with the terms of the specific loan agreements. Accrued interest is included on the balance sheet as part of Loans to Member Institutions.

3. Change in accounting policy

During the year the Corporation changed its method of accounting for identified losses. In prior years, these identified losses were included in the general provision for loss and therefore, did not reduce the carrying value of the related asset. The Corporation has adopted the policy of reporting financial claims net of identified losses and has applied the policy retroactively. Consequently, the balances of loans to member institutions and the general provision for loss as at December 31, 1984, have each been reduced by $573,431,000.

4. Prior period adjustment

Pursuant to a 1985 amendment to the Income Tax Act (effective 1983) permitting the Corporation, in computing its taxable income, to claim a deduction for uncollectible accrued interest receivable, the Corporation has restated its 1984 financial statements. The Corporation will use losses created for tax purposes to recover previously paid income taxes. Consequently, current income taxes for 1984 previously reported as $6,709,000 have been restated to show a recovery of $37,316,000. Deferred income taxes recovery, previously reported as $928,000, has been increased to $1,473,000. The effect of these changes has been to increase net earnings from investment and administrative operations for 1984 by $44,570,000 from $2,847,000 to $47,417,000. Consequently, the Deposit Insurance Fund Deficiency as at December 31, 1984 has been reduced from $871,357,000, as previously reported, to $826,787,000.

5. Loans to member institutions

Certain member institutions that have experienced financial difficulties have been placed under the control of regulatory authorities. In accordance with section 11(a) of the CDIC Act, the Corporation entered into agency agreements with other member institutions (agents) to ensure that the respective operations of institutions experiencing financial difficulties, would be wound down in an orderly fashion over a five year term. The liabilities and operations of these companies are being financed on a continuing basis by way of direct loans or by the respective agents providing loans on behalf of the Corporation.

As at December 31, 1985, direct loans or loans made by agents on behalf of the Corporation were as follows:

Member institutions Under Agency Agreements	Direct	By Agents	Total 1985	Total 1984
	(in thousands of dollars)			(restated)
Crown Trust Company		235,500	235,500	297,750
District Trust Company		7,840	7,840	11,026
Fidelity Trust Company	42,642	317,489	360,131	296,506
Greymac Mortgage Corporation	61,238	52,500	113,738	105,302
Greymac Trust Company	45,020	151,450	196,470	159,972
	148,900	764,779	913,679	870,556
In liquidation				
Amic Mortgage Investment Corporation	933		933	2,083
Canadian Commercial Bank	75,000		75,000	
Seaway Mortgage Corporation		76,234	76,234	54,500
Seaway Trust Company		97,451	97,451	137,651
	75,933	173,685	249,618	194,234
	224,833	938,464	1,163,297	1,064,790
Identified losses	223,900	527,264	751,164	573,431
Balance	933	411,200	412,133	491,359

CANADA DEPOSIT INSURANCE CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

The Corporation has registered a floating charge on all the assets of member institutions under agency agreements as security for the loans. During the term of the agreements, the agents are paying all liabilities on maturity and are disposing of the assets in a manner to optimize recovery. The assets of these member institutions consist primarily of mortgages and real estate. The ultimate realization of these assets is dependent on the state of economy, interest rate levels and the real estate market in general.

6. Claims in respect of insured deposits

When the Corporation pays a depositor's claim it acquires a subrogation of the rights and interest of the depositor as against the assets of the member institution. The Corporation's claims in respect of payments to insured depositors of the following member institutions are identified below:

	1985	1984
	(in thousands of dollars)	
Amic Mortgage Investment Corporation	22,768	22,768
Astra Trust Company	339	339
Canadian Commercial Bank	277,000	
CCB Mortgage Investment Corporation	47,929	
Continental Trust Company	113,901	
London Loan Limited	23,854	
Northguard Mortgage Corporation	27,552	27,805
Northland Bank	316,083	
Pioneer Trust Company	116,015	
Seaway Trust Company	150,062	150,062
Western Capital Trust Company	42,321	
	1,137,824	200,974

7. Loans from consolidated revenue fund

With the approval of the Governor in Council, the Corporation can borrow up to $1.5 billion from the Consolidated Revenue Fund.

8. General provision for loss

	1985	1984
	(in thousands of dollars)	
		(restated)
Balance, beginning	676,569	650,000
Provision for loss	420,000	600,000
	1,096,569	1,250,000
Less identified losses on loans to member institutions	177,733	573,431
Balance, ending	918,836	676,569

The Corporation understands that the Minister of Finance will propose to Parliament amendments to the Income Tax Act to eliminate anomalies which may result in double taxation of a member institution in liquidation in respect of amounts paid by the Corporation to depositors of the institution. The Corporation has not taken into account any estimate of the taxes payable by member institutions in arriving at its potential recoveries of claims in respect of insured depositors, and accordingly the general provision for loss.

9. Contingent liabilities

The Corporation is a defendant in a number of judicial actions arising out of the collapse or insolvency of various member institutions. The Corporation does not believe it has any liability as a result of these actions and has therefore not provided for any potential claims.

10. Income taxes

The Corporation is subject to federal income tax on its investment income less administrative expenses. It is not subject to taxation on premiums collected and may not take a deduction for claims paid.

The Corporation has available losses which can be carried forward to reduce future years' income otherwise subject to taxation. Such losses total $102 million and expire as follows:

	(in millions of dollars)
1991	34
1992	68
	102

11. Deposit insurance fund deficiency

The Corporation does not believe that its current rate of premium assessments, which are the maximum allowed by the Act, are sufficient to permit the elimination of the deposit insurance fund deficiency. Bill C-86, which was tabled before Parliament in 1985 and has subsequently received second reading, includes authority to increase the premium rate from 1/30 of 1% to 1/10 of 1% of the insured deposits.

12. Insured deposits

Deposits insured by the Corporation, on the basis of returns received from member institutions as at April 30, 1985 and 1984, are as follows:

	1985	1984
	(in billions of dollars)	
Federal Institutions	160	149
Provincial Institutions	14	13
	174	162

13. Comparative figures

Certain of the 1984 figures have been reclassified so as to conform with the presentation adopted for 1985.

SUMMARY PAGE

CANADA DEVELOPMENT INVESTMENT CORPORATION

MANDATE

To privatize its holdings while gaining a fair return for Canada in the process and, in the interim, to ensure that its subsidiaries are managed in a sound commercial manner.

BACKGROUND

CDIC was incorporated in 1982 to hold and manage enterprises and investments assigned to it by the federal government, and to divest those enterprises and investments when commercially feasible. Investments currently owned by CDIC, or assigned to it for management include Canadair Limited, Eldorado Nuclear Limited, Teleglobe Canada, Canada Development Corporation, Varity Corporation and Massey Combines Corporation. The de Havilland Aircraft of Canada, Limited was sold on January 31, 1986 to Boeing Commercial Airplane Company and on August 18, 1986 the Minister of State for Privatization announced the signing of a Letter of Intent to sell Canadair Limited to Bombardier Inc.

CORPORATION DATA

HEAD OFFICE	1 First Canadian Place Toronto, Ontario M5X 1A4
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Barbara McDougall, P.C., M.P. Minister of State (Privatization)
DATE AND MEANS OF INCORPORATION	By Canada Development Corporation under the *Canada Business Corporations Act.*
CHIEF EXECUTIVE OFFICER	Paul M. Marshall
CHAIRMAN	Bernard Lamarre
AUDITOR	Peat, Marwick, Mitchell and Co. and the Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends December 31.

	1985	**1984**	**9 months to Dec. 31, 1983 (as restated)**
At the end of the period			
Total Assets	642	679	175
Obligations to the private sector*	144	1,261	1,170
Obligations to Canada	nil	nil	negl
Equity of Canada	485**	(709)	(1,042)
Cash from Canada to subsidiaries in the period			
— budgetary	500	550	300
— non-budgetary	nil	nil	nil

*The obligations were largely those of a subsidiary, Canadair Financial Corporation Inc. However, legislation in June 1985 provided authority for the assumption by Canada of this Canadair debt. In that year $1,044 million of it was assumed and the $144 million principal balance was assumed in 1986; accrued interest of $40 million approx. was also assumed, for a total of $1.23 billion to Canada's account. Canada discharged $874 million of these new liabilities in 1985-86, an amount separate from the Cash from Canada amounts shown above.

**The 1985 assumption of debt by Canada was allocated to contributed surplus in CDIC's accounts and was the main factor in reversing the Equity amounts recorded above.

CANADA DEVELOPMENT INVESTMENT CORPORATION

AUDITORS' REPORT

THE HONOURABLE SINCLAIR McKNIGHT STEVENS, P.C., M.P.
MINISTER RESPONSIBLE FOR
CANADA DEVELOPMENT INVESTMENT CORPORATION

We have examined the consolidated balance sheet of Canada Development Investment Corporation as at December 31, 1985 and the consolidated statements of income (loss) and accumulated deficit, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the corporation and of its wholly-owned subsidiaries that have come to our notice during our examination of the consolidated financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, and the charters and by-laws of the corporation and its wholly-owned subsidiaries.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Toronto, Canada
March 21, 1986

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984
Current assets		
Cash and short-term investments	3,588	9,863
Due from related parties	160	710
Other receivables	2,815	
	6,563	10,573
Investments	635,355	606,067
Unamortized foreign exchange losses		61,514
Other	151	411
	642,069	678,565

LIABILITIES AND SHAREHOLDER'S EQUITY (DEFICIENCY)	1985	1984
Current liabilities		
Accounts payable and accrued liabilities	3,529	14,177
Payable to related parties		74,551
Accrued interest	9,164	37,957
Current portion of long-term debt	143,864	13,217
	156,557	139,902
Long-term debt of Canadair Financial		1,247,540
SHAREHOLDER'S EQUITY (DEFICIENCY)		
Capital stock		
Authorized—Unlimited number of common shares		
Issued and fully paid—101 common shares	1	1
Contributed surplus	3,351,848	1,772,007
Accumulated deficit	(2,866,337)	(2,480,885)
	485,512	(708,877)
	642,069	678,565

The accompanying notes are an integral part of these consolidated financial statements.

Subsequent events (Note 11)

Commitments and contingencies (Notes 4, 10 and 11)

On behalf of the Board:

PAUL M. MARSHALL
Director

D. McQ. SHAVER
Director

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

CONSOLIDATED STATEMENT OF INCOME (LOSS) AND ACCUMULATED DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	Canadair	de Havilland	Eldorado	CDIC	Total 1985	Total 1984
Operating income (loss)	30,453	19,312	44,702	(3,531)	90,936	83,508
Financial (expense) income	(1,375)	810	(73,126)	(211,209)	(284,900)	(249,604)
Unusual expense items		(114,724)	(4,350)		(119,074)	(44,492)
Royalty and tax (expense) recovery	(9,479)	176	(24,430)		(33,733)	(18,322)
Provision for reduction in value of investments				(46,656)	(46,656)	
	19,599	(94,426)	(57,204)	(261,396)	(393,427)	(228,910)
Extraordinary items	7,975				7,975	12,448
Net income (loss) for the year ended December 31, 1985	27,574	(94,426)	(57,204)	(261,396)	(385,452)	
Net income (loss) for the year ended December 31, 1984	6,044	(40,377)	4,427	(186,556)		(216,462)
Accumulated deficit, beginning of year					(2,480,885)	(2,264,423)
Accumulated deficit, end of year					(2,866,337)	(2,480,885)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Balance, beginning of year	1,772,007	1,222,007
Assumption of long-term debt of Canadair Financial by the Government of Canada	1,079,841	
Contributed in cash by the Government of Canada to subsidiaries		
Canadair Financial	300,000	310,000
de Havilland	200,000	240,000
Balance, end of year	3,351,848	1,772,007

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Source of funds		
Contributed surplus (Canadair Financial)	1,379,841	310,000
Uses of funds		
Corporate operations	3,531	650
Item not affecting cash—Depreciation	(49)	(130)
Interest and financing expenses net of amortization of foreign exchange losses	94,814	152,050
Decrease (increase) in long-term debt	1,116,893	(40,212)
Decrease in payable to related parties	74,551	81,156
Decrease in bank indebtedness		23,507
Deemed contribution to Canadair Limited		98,453
Decrease (increase) in accounts payable	10,648	(5,148)
Increase (decrease) in other items, net	85,728	(1,754)
	1,386,116	308,572
Increase (decrease) in cash and short-term investments	(6,275)	1,428
Cash and short-term investments, beginning of year	9,863	8,435
Cash and short-term investments, end of year	3,588	9,863

The accompanying notes are an integral part of these consolidated financial statements.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1985
(All dollar amounts are stated in thousands)

1. The corporation

Canada Development Investment Corporation ("the corporation") was incorporated on May 26, 1982 under the provisions of the Canada Business Corporations Act and is wholly-owned by Her Majesty in right of Canada. The corporation is subject to the Financial Administration Act and the Government Companies Operation Act and is an agent of Her Majesty.

2. Basis of presentation

In a statement dated October 30, 1984, the Minister of the Government of Canada responsible for the corporation announced the intention of the Government to cause the corporation to dispose of its investments in Massey-Ferguson Limited ("Massey-Ferguson"), Canadair Limited ("Canadair"), The de Havilland Aircraft of Canada, Limited ("de Havilland") and Eldorado Nuclear Limited ("Eldorado") in an orderly fashion. The Board of Directors of the corporation is developing an approach to the divestiture of these investments which would meet the requirements of the Government; however, no formal plan to dispose of the investments has been approved by the Government except for the disposal of the corporation's investment in de Havilland (see Note 11). Any divestiture plan or proposal will require formal approval by the Government pursuant to the requirements of the Financial Administration Act.

As no formal plans of divestiture have been presented for approval with respect to Canadair and Eldorado, the corporation believes that it is appropriate to continue to carry the investments in Canadair and Eldorado on the equity basis of accounting. Eventual disposal prices for these subsidiaries may be more or less than these carrying values.

3. Significant accounting policies

(a) Basis of consolidation

The financial statements of Canadair Financial Corporation Inc. ("Canadair Financial") have been consolidated with those of the corporation.

(b) Investments in non-consolidated subsidiaries

Investments in subsidiaries originally acquired with the objective of their eventual disposition or privatization are accounted for on the equity basis, unless there is a formal plan, approved by the Government of Canada, to dispose of the investment, in which case the investment is carried at the lower of the equity basis carrying value and net realizable value. A consolidation of the corporation's financial statements and these subsidiaries has not been prepared as the corporation believes that the equity method provides a more informative presentation to the shareholder. The consolidated financial statements of each non-consolidated subsidiary are attached.

(c) Portfolio investment

The corporation's portfolio investment is accounted for on the cost basis, unless there has been a measurable impairment in value which is other than temporary, in which case the investment is written down to recognize the loss.

(d) Foreign currency translation

Foreign currency assets and liabilities are translated into Canadian dollars in accordance with the temporal method. Under that method, monetary assets and liabilities are translated at the year-end rate, non-monetary assets and liabilities are translated at rates in effect on the dates of the transactions.

4. Investments

The carrying value of the corporation's investments is as follows:

	Carrying Value December 31, 1984	Contributions from the Government of Canada	Equity in Income (Loss)	Provision for Reduction in Value	Carrying Value December 31, 1985
Non-Consolidated Subsidiaries					
Canadair	196,428		27,574		224,002
de Havilland	21,082	200,000	(94,426)	(46,656)	80,000
Eldorado	262,208		(57,204)		205,004
	479,718	200,000	(124,056)	(46,656)	509,006
Portfolio Investment Series D Preferred Shares of Massey-Ferguson	126,349				126,349
	606,067				635,355

(a) As discussed in Note 11, the corporation disposed of its investment in de Havilland on January 31, 1986. Accordingly, the carrying value of the corporation's investment in de Havilland has been written down to its estimated net realizable value.

(b) The corporation believes that there is a possibility that the cost of its investment in Massey-Ferguson, as reflected in these financial statements, significantly exceeds the value of that investment; however, the specific value of this portfolio investment is not reasonably estimable at this time. Massey-Ferguson has announced an intention to reorganize itself and the corporation has signed a letter of intent to agree to this reorganization. At this time, Massey-Ferguson has not completed negotiations with the various parties concerned and major issues are still to be settled.

(c) As at December 31, 1985 the Government of Canada provides authorities and guarantees for the borrowings of Canadair, de Havilland and Eldorado as follows:

	Maximum Authorities	Maximum Guarantees	Utilization as at December 31, 1985
Canadair			
de Havilland		450,000	7,669
Eldorado	600,000		561,775

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1985—*Continued*

5. Long-term debt of Canadair Financial

	1985	1984
Term loan due August 22, 1985 with interest at 9¾% (U.S. $10 million)		13,217
Term bank loan due May 7, 1986 with interest at LIBOR plus ½% (U.S. $187.5 million)		247,819
Term bank loan due December 1, 1986 with interest at LIBOR plus ⅜% (U.S. $75 million).		99,128
Term notes due March 15, 1987 with interest at 15½%, callable after March 15, 1985 at 101% of principal amount; 100½% after March 15, 1986 (U.S. $150 million)		198,255
Notes due June 1, 1987 with interest at 16⅜% (U.S. $50 million)	69,915	66,085
Term bank loan due November 11, 1988 with interest at LIBOR plus ⅜% or U.S. prime rate revolving to November 11, 1986 with payments equal to 25% of the outstanding balance commencing from May 11, 1987 and continuing semi-annually until maturity (U.S. $85 million)		112,345
Syndicated term loan due March 6, 1989 with interest at LIBOR plus ⅜% or U.S. prime rate to March 12, 1985 and LIBOR plus ½% or U.S. prime rate plus ⅛% thereafter, revolving to March 6, 1987, with payments equal to 25% of the outstanding balance commencing from September 6, 1987 and continuing semi-annually until maturity (U.S. $75 million)		99,128
Notes due November 15, 1989 with interest at 12½% callable at a maximum of 105% of principal amount (U.S. $175 million)		231,298
Term loans due March 22, 1992 with interest at prime rate less ¾%, revolving until March 22, 1987, with payments equal to 5% of the outstanding balance commencing from March 22, 1988 and continuing semi-annually with the balance repayable at maturity	32,000	63,216
Term loan due March 22, 1992 with interest at prime rate less ¾%, with payments equal to $5 million commencing from March 22, 1988 and continuing semi-annually with the balance repayable at maturity		100,000
Discounted note due April 26, 1992 with interest at 8½% with annual installments of U.S. $6 million commencing April 26, 1988 (U.S. $30 million)	41,949	39,650
Less unamortized discount on issuance of long-term debt		(9,384)
Sub-total	143,864	1,260,757
Less principal included in current liabilities	(143,864)	(13,217)
		1,247,540

The Government of Canada has the authority to guarantee certain financial arrangements of Canadair Financial with financial institutions to a maximum $1,350,000. In March 1985, the Government of Canada contributed $300,000 (1984—$310,000) to the equity account of Canadair Financial.

In June 1985, the Government of Canada indicated its intention to assume the long-term debt of Canadair Financial. Accordingly, between June 25, 1985 and December 31, 1985, with the concurrence of the relative lenders (where practicable), the Government of Canada assumed certain of the debt amounting to $1,079,841. The assumption of this debt, which includes accrued unpaid interest of $35,578 thereon, has been accounted for as contributed surplus. The balance of the debt at December 31, 1985 of $143,864 is reflected as a current liability (see Note 11).

In addition, all deferred charges associated with the long-term debt, consisting mainly of unamortized foreign exchange variances, have been expensed during the year.

6. Interest and other financing expenses—Canadair Financial

	1985	1984
Interest on long-term debt (including amortization of discount)	102,949	146,641
Interest on other debt	2,375	2,713
Foreign exchange	105,885	36,552
	211,209	185,906

7. Operating income (loss)—CDIC

	1985	1984
Service fees from subsidiaries	3,084	5,862
Interest earned on short-term investments	418	694
	3,502	6,556
Corporate expenses	7,033	7,206
	(3,531)	(650)

8. Directors' and officers' remuneration

	Directors' Fees	Salaries and Benefits	Other	Total
Remuneration of Directors				
Number of Directors—15				
Incurred by the corporation	147			147
Remuneration of Officers[a]				
Incurred by the corporation		832	113	945
	147	832	113	1,092

[a] There were six persons who served as officers during the year. There were five officers at year end.

9. Income tax

As at December 31, 1985 Canadair Financial has tax losses of $412,000 available to reduce taxable income expiring as follows:

1987	64,000
1990	256,000
1991	92,000
	412,000

The potential future tax reductions relating to these losses carried forward have not been recorded in these financial statements. They will be recorded, when realized, as an extraordinary item.

10. Lease commitments

Lease commitments under operating leases for office premises with terms of more than one year total $556. The aggregate annual minimum lease payments under these arrangements is as follows:

1986	424
1987	132
	556

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1985—*Concluded*

11. Subsequent events

(a) Disposal of de Havilland

On January 31, 1986 the corporation sold its investment in de Havilland to The Boeing Company ("Boeing"). The consideration for the sale was $155,000 of which $90,000 was received in cash on closing. $65,000 of the purchase price is payable in installments, without interest, over a fifteen year period. These installments shall be reduced by an amount equal to 20% of the Canadian content of any incremental work packages placed by Boeing at de Havilland's Downsview facilities or any other Boeing facility in Canada.

The corporation and the Government of Canada have agreed to indemnify Boeing and de Havilland for certain contingent liabilities and other expenditures which may be incurred by Boeing and de Havilland over a maximum of six years after closing.

These contingent liabilities include the following:

(i) A portion of de Havilland's product liability insurance premiums;

(ii) Certain suppliers' claims which may be asserted against de Havilland for production slow-down or termination, and potential claims against de Havilland pursuant to product financing agreements up to a maximum of $60,000.

As indicated in Note 4, the net realizable value of the corporation's investment in de Havilland is presently estimated to be $80,000.

This estimate is based upon the following considerations:

- The discounting of the $65,000 portion of the purchase consideration represented by non-interest bearing installments due over fifteen years.
- An estimate of the amounts which the corporation believes are likely to be paid to Boeing and/or de Havilland pursuant to the indemnities contained in the agreement of purchase and sale. These estimates have been made by the corporation based on information currently available and involve the forecasting of certain future events and conditions. These forecasts are likely to be different than actual events and conditions; accordingly, refinements of these estimates may be necessary in future fiscal periods. In addition, reasonable estimates of the effects of certain of these future events and conditions cannot be made at this time; therefore, no provision for the related indemnity liability has been reflected in this estimate of net realizable value. Such amounts will be recognized as appropriate in future fiscal periods when reasonable estimates can be made as to the likely amount, if any, which will ultimately be paid pursuant to the indemnities.

(b) Long-term debt of Canadair Financial

The Government of Canada assumed the balance of the outstanding debt of Canadair Financial of $143,864, plus accrued interest, during February 1986.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 1

CANADAIR LIMITED

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
CANADAIR LIMITED

We have examined the consolidated balance sheet of Canadair Limited as at December 31, 1985 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The financial statements of the preceding year were examined by other chartered accountants.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions that have come to our notice in the course of our examination of these consolidated financial statements have been in all significant respects in accordance with Part XII of the Financial Administration Act and regulations and the charter and by-laws of the Corporation.

Ernst & Whinney

Montreal, Canada
March 21, 1986

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984
Current assets		
Cash and certificates of deposit	74,287	5,331
Term deposits (Note 3)	117,983	38,921
Accounts receivable	45,251	34,736
Receivable from affiliate		74,405
Contracts and programs in process and inventories less advances and progress billings (Note 4)	186,749	257,776
Prepaid expenses	1,919	1,381
	426,189	412,550
Property, plant and equipment (Note 5)	126,735	123,288
Less: accumulated depreciation	74,773	68,573
	51,962	54,715
	478,151	467,265

LIABILITIES	1985	1984
Current liabilities		
Accounts payable and accrued liabilities	70,062	87,641
Customer advances, contract and program related accruals	169,179	166,981
Current portion of long-term debt	1,777	1,789
	241,018	256,411
Long-term debt (Note 6)	13,131	14,426
SHAREHOLDERS' EQUITY		
Capital stock (Note 7)	179,031	179,031
Retained earnings	44,971	17,397
	224,002	196,428
	478,151	467,265

Contingencies (Note 12)

Approved on behalf of the Board:

PIERRE DESMARAIS
Director

GORDON H. COUPERTHWAITE
Director

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 1—*Continued*

CANADAIR LIMITED—*Continued*

CONSOLIDATED STATEMENT OF INCOME YEAR ENDED DECEMBER 31, 1985 (in thousands of dollars)

	1985	1984
Sales	438,010	376,443
Other income	13,065	
	451,075	376,443
Cost and expenses		
Cost of sales	346,486	309,009
Research and development	20,425	10,821
Selling, general and administrative	53,711	48,990
Interest on long-term debt	1,375	1,504
	421,997	370,324
Income before income taxes and extraordinary item	29,078	6,119
Income taxes	9,479	1,523
Income before extraordinary item	19,599	4,596
Extraordinary item		
Reduction of income taxes arising from the utilization of prior years' unclaimed tax deductions	7,975	1,448
Net income	27,574	6,044

CONSOLIDATED STATEMENT OF RETAINED EARNINGS YEAR ENDED DECEMBER 31, 1985 (in thousands of dollars)

	1985	1984
Retained earnings (deficit) at beginning of year	17,397	(87,100)
Deemed contributed surplus		98,453
Income for the period	27,574	6,044
Retained earnings at end of year	44,971	17,397

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1985 (in thousands of dollars)

	1985	1984
Operating activities		
From operations		
Income before extraordinary item	19,599	4,596
Non-cash item		
Depreciation	6,410	5,374
Total from operations before extraordinary item	26,009	9,970
Extraordinary item	7,975	1,448
Total from operations	33,984	11,418
Decrease in accounts receivable from affiliate	74,405	80,595
Decrease (increase) in inventories, contracts and programs in process—Net	71,027	(1,777)
Total sources from operating activities	179,416	90,236
Increase in term deposits	79,062	38,921
Increase (decrease) in accounts receivable and prepaid expenses	11,053	(1,489)
Decrease in current liabilities	15,381	144,848
Total use from operating activities	105,496	182,280
Net from operating activities	73,920	(92,044)
Financing activities		
Decrease in long-term debt	(1,307)	(1,025)
Deemed contributed surplus from affiliate		98,453
Issue of shares		155,001
Loan to affiliate		(155,000)
Net of financing activities	(1,307)	97,429
Investing activities		
Additions to equipment, net	(3,657)	(5,169)
Increase in cash and certificates of deposit	68,956	216
Cash at beginning of year	5,331	5,115
Cash and certificates of deposit at end of year	74,287	5,331

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 1985

1. Summary of significant accounting policies

Basis of presentation and consolidation

The consolidated balance sheet and consolidated statements of income and retained earnings and changes in financial position include the assets and liabilities, results of operations and changes in financial position of the Company's wholly-owned subsidiaries, Canadair Services Limited, Canadair Challenger Inc. and Challenger Aviation Service GmbH. Certain 1984 numbers have been reclassified to conform with the presentation adopted for 1985.

Accounting for long-term contracts and programs

In accordance with industry practice, work in process under long-term government contracts and commercial contracts and programs is classified as a current asset on the balance sheet even though a portion is not expected to be realized within one year.

Government contracts are accounted for primarily using the percentage-of-completion method whereby sales are recorded as costs are incurred or as units are delivered and include that proportion of estimated earnings at contract completion that costs incurred to date bear to estimated costs at contract completion. Work in process includes direct costs incurred, factory overhead, general and administrative expenses, plus estimated earnings on such costs, less advances and progress billings. Earnings are

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 1—*Continued*

CANADAIR LIMITED—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 1985—*Continued*

included in income only when sufficient production has been accomplished to permit estimation of total contract earnings with a minimum of risk. At such time, earnings are recorded based on the work completed to date. Estimated losses are charged to income as soon as they are identified.

Commercial contracts and programs are accounted for primarily under the program method of accounting and are stated at actual production costs incurred, including factory overhead, and, except for the Challenger program (Note 2), development, tooling and general and administrative expenses, less advances and progress billings. Sales and earnings are recognized as units are delivered. The cost of delivered units is calculated at the actual selling price less the gross margin, which is estimated for the program using a conservative program quantity for accounting purposes. Program assessments are performed periodically to determine the estimated gross margin percentage. Should a negative gross margin be forecast, the work in process is written down in the period to estimated net realizable value.

Estimated earnings or losses on government contracts and commercial contracts and programs are determined from projected revenues and manufacturing costs taking into account factors such as expected sales, price levels, production costs and other variables which may be beyond the Company's control. Because these factors cannot be measured with precision, the estimates are subject to periodic revisions. Contract earnings and losses recorded in the current year include the cumulative effect of revisions to prior years' estimates. Changes to estimated program earnings are accounted for prospectively.

Title to work performed under certain contracts in process and to related inventories is vested in the customer in accordance with contract provisions.

Inventories

Inventories of commercial products, materials and spare parts are stated at the lower of average cost or estimated net realizable value.

Research and development costs

Research and development costs recoverable pursuant to contracts are included in work in process. Product development costs directly related to company-sponsored production programs and all company funded research and development programs are currently charged to income.

Foreign currency translation

Foreign currency assets and liabilities, including those of foreign subsidiaries Canadair Challenger Inc. and Challenger Aviation Service GmbH, are translated into Canadian dollars in accordance with the temporal method. Under that method, monetary assets and liabilities are translated at the year-end rate and non-monetary assets, liabilities, revenue and expenses are translated at the effective rate at the time of the transaction.

Property, plant and equipment

Buildings, machinery and equipment are stated at cost. Land is stated at the 1974 appraised value net of disposals.

Depreciation is provided principally on a declining balance basis. The depreciation rates for buildings vary from 4% to 10% and the rates for machinery and equipment vary from 20% to 30%. The depreciation of certain machinery is based on usage over the estimated life of the machinery. Leased equipment is depreciated principally on a straight-line basis over three years.

Pension costs

Current service costs under Company pension plans are charged to costs incurred as they accrue and are funded as necessary following the most recent actuarial review of the plans. Past service costs are charged to costs incurred over varying periods as they are funded.

2. Challenger program

The Company currently follows the program method of accounting for the Challenger 601 program based on the program accounting quantity of 66 aircraft, the number to be produced before the introduction of the Challenger 601-3A model early in 1987. Pursuant to a program assessment made as of December 1982, all Challenger non-recurring program costs were written off and, accordingly, the current inventoried costs do not include any amounts of development, tooling and excess early learning or other deferred costs. No gross margin was recorded prior to March 30, 1984, at which time the Company underwent a financial restructuring. Subsequent to that date, gross margin has been recorded based on conservative estimates of program revenues and costs. Changes to such estimates affecting program gross margin recorded in a prior period are accounted for prospectively.

All Challenger 601 product improvement, product support, marketing and general and administrative costs are expensed as incurred. Aircraft in finished goods inventory are valued at the lower of estimated cost or net realizable value. Commitments to suppliers for production material for the Challenger 601 and the Challenger 601-3A aggregated $240 million at December 31, 1985.

At December 31, 1985, 44 Challenger 601 aircraft had been delivered and the Company had firm orders for 11 aircraft.

3. Term deposits

Term deposits comprise advance payments from customers and include $86.7 million of advance payments received from a customer, and assigned by the Company to a financial institution as security for an advance payment guarantee provided to the customer by the financial institution as required under the contract. The deposits with interest will be released to the Company as outfitted aircraft are delivered to the customer commencing in early 1986.

4. Contracts and programs in process and inventories

Contracts and programs in process and inventories at December 31 consisted of:

	1985	1984
	(in thousands of dollars)	
Challenger program		
Finished goods	11,662	62,344
Work in process, materials, supplies and spares less advances of $72.2 million (1984—$9.6 million)	139,686	153,427
	151,348	215,771
Other programs, contracts and products		
Finished goods	3,288	9,792
Work in process, materials, supplies and spares less advances and progress billings of $81.7 million (1984—$42.8 million)	32,113	32,213
	35,401	42,005
	186,749	257,776

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 1—*Continued*

CANADAIR LIMITED—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1985—*Continued*

5. Property, plant and equipment

Property, plant and equipment at December 31 consisted of:

	1985			1984
	Assets	Accumulated depreciation	Net book value	Net book value
	(in thousands of dollars)			
Buildings	45,429	21,990	23,439	24,376
Machinery and equipment				
Owned	61,922	46,683	15,239	15,764
Capital leases	7,374	6,100	1,274	2,507
	114,725	74,773	39,952	42,647
Land, at 1974 appraised value, net of disposals	12,010		12,010	12,068
	126,735	74,773	51,962	54,715

6. Long-term debt

Long-term debt at December 31 consisted of:

	1985	1984
	(in thousands of dollars)	
Mortgage loan due January 1, 1994, with interest at 7⅛% to January 1, 1989 and 7¼% thereafter (U.S. $6 million)	8,390	7,930
Defence Industry Productivity Program funding	1,115	1,733
Obligations under capital leases expiring through 1989 with interest varying from 9½% to 14½%	5,403	6,552
Total long-term debt	14,908	16,215
Less: principal included in current liabilities	(1,777)	(1,789)
	13,131	14,426

Estimated repayments in future years are as follows:

	Capital leases	Other long-term debt
	(in thousands of dollars)	
1986	2,383	278
1987	2,050	1,117
1988	1,787	1,117
1989	328	1,330
1990		1,258
Subsequent years		4,405
	6,548	9,505
Interest on capital leases	(1,145)	
	5,403	9,505

7. Capital stock

The authorized capital stock of the Company consists of an unlimited number of common shares and an unlimited number of non-voting, redeemable, preferred shares with a non-cumulative dividend entitlement of 8% of their paid-up value.

The Company's capital stock consists of 10 million common shares issued for $1 thousand, 155,000 preferred shares issued for $155 million and 24,030 preferred shares issued in consideration for the net assets transferred to the Company on March 30, 1984, the date of the Company's financial restructuring.

8. Sales by class of business

Substantially all of the Company's operations are in the aerospace industry. Sales were distributed as follows:

	1985	1984
	(in thousands of dollars)	
Aircraft	417,526	354,768
Surveillance systems	20,058	17,375
Other	426	4,300
	438,010	376,443

The Company had export sales in 1985 of $241.0 million (1984—$313.5 million).

9. Related party transactions

The Company is a wholly-owned subsidiary of Canada Development Investment Corporation, a Crown corporation.

Sales to the Government amounted to $164.8 million in 1985 (1984—$47.6 million). Amounts due from and owing to the Government at December 31, 1985, were $3.7 million and $2.1 million, respectively (1984—$4.4 million and $2.9 million, respectively). Related party sales during the year were made on the same terms and conditions as similar sales to unrelated parties. Progress payments against the CL-215 aircraft ordered by the Government of Canada in 1983 amounted to $37.1 million in 1985.

A management fee of $1.7 million was paid to Canada Development Investment Corporation in 1985 (1984—$3.2 million).

10. Income taxes

As at December 31, 1985, the tax values of depreciable assets exceeded corresponding net book values by approximately $90 million. The Company has unclaimed expenses of $12 million deductible in determining the taxable income of future years. The potential future tax benefits from these items have not been recognized in the financial statements. In addition, the Company has unutilized investment tax credits of $4.8 million available to reduce the income taxes of future years through 1992.

11. Lease commitments

Future lease commitments under operating leases with terms of more than one year are as follows:

	(in thousands of dollars)
1986	2,076
1987	793
1988	308
1989	178
1990	107
Subsequent years	2,198
	5,660

12. Contingencies

Litigation

On May 30, 1983, the Company filed suit in the Province of Quebec against Avco Corporation of Greenwich, Connecticut, U.S.A. for damages in the amount of $109.6 million. The Company's suit alleges a failure by Avco to fulfill contract obligations

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 1—*Concluded*

CANADAIR LIMITED—*Concluded*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 1985—*Concluded*

involving the development, manufacturing and delivery of engines for the Challenger 600 aircraft. On August 3, 1983, Avco filed suit against the Company in the State of Connecticut claiming U.S. $100 million on the basis of the Company's alleged unilateral termination of the Challenger 600 engine contract, non-payment of monies owed and damages to Avco's reputation. In addition, Avco claimed unspecified punitive damages. On December 21, 1983, the Company amended its action against Avco, increasing the damages claimed to $480 million.

In June 1985, a U.S. antitrust action was filed against nine aerospace companies, including Canadair Challenger Inc., a subsidiary of the Company, by certain American private plaintiffs. The action seeks treble damages of U.S. $52.5 million, alleging price fixing, production rate and other conspiracies, and combinations among general aviation manufacturers and sellers causing them damages. The Company considers the action to be without merit and is defending the suit.

The Company is a defendant in other legal proceedings which management believes are either without merit, covered by insurance, or are adequately provided for in the financial statements.

Management believes that recorded provisions for such proceedings where those have been considered necessary are adequate and the resolution of these items will not have a material adverse effect on the financial position of the Company.

Conditional repurchase agreement

In certain specified circumstances or on the happening of certain specified events, owners of a total of eight Challenger aircraft have the right to require the Company to repurchase their aircraft. Management considers it to be unlikely that the specified circumstances or specified events will materialize.

Provisions for claims

Reductions in 1982 and 1983 in the production rate of the Challenger program resulted in reduced requirements for parts and materials. Suppliers of some of those parts and materials have submitted claims for recovery of increased costs attributable to reduced rates of production and delivery. The Company has made provision for all such claims; however, because of the complexity of negotiations and the many variables involved, the Company's liability with respect to such suppliers' claims cannot yet be quantified with precision. The ultimate settlement with the suppliers could be greater or less than the amount provided, and accordingly, adjustments to the provisions may be required.

The Company has accrued for all other known liabilities, using estimates where applicable.

Repayment of government assistance

The Company is contingently liable to repay $39.2 million of government assistance (1984—$40.3 million), based on revenues or profits from future sales. All repayments will be charged to cost of sales in the year the revenues or profits are recorded.

13. Government assistance

In 1985, assistance from the Government of Canada under established Government programs to finance production programs, development programs and equipment acquisitions amounted to $6.2 million (1984—$4.0 million). The amount of the assistance has been accounted for as follows:

	1985	1984
	(in thousands of dollars)	
Production Programs		
Credited to program cost or to sales	2,007	3,964
Development Programs		
Credited to sales	3,883	
Equipment Acquisitions		
Reduction in equipment costs	298	
	6,188	3,964

Repayment of government assistance under certain contracts is included in long-term debt (Note 6); other assistance is contingently repayable from future program sales (Note 12).

14. Remuneration of sales and technical representatives

During the year, remuneration and expenses paid to the following sales and technical representatives in connection with foreign sales, including payments made for operational services, aggregated $0.7 million (1984—$1.9 million):

Avionic, Greece; Compagnia Importazioni Exportazioni Rappresentage, Italy; Dismatica Industrial CA, Venezuela; Djaneast, Yugoslavia; Estudios Technologicos S.L., Spain; Hing Lung Hong, China; S. Kittivat R.O.P., Thailand.

15. Directors' and officers' remuneration

Remuneration paid by the Company during 1985 to the directors and to the officers was as follows:

	Directors Fees	Salaries and Benefits	Total
	(in thousands of dollars)		
Remuneration of 20 present and former directors	113.8		113.8
Remuneration of 14 officers		1,810.5	1,810.5
	113.8	1,810.5	1,924.3

During 1985, the President was paid by Canada Development Investment Corporation and received no remuneration from the Company.

The salaried employees of the Company may contribute, on an optional basis, to the Employees' Savings & Investment Plan. The Company also contributes to the Plan a certain percentage of the employees' contributions, which amounts become vested after a period of three years. Amounts contributed by the Company during the year for the fourteen officers aggregated $96,929.

16. Pension plans

The Company's pension plans cover most employees. Pension costs incurred in 1985 and 1984 including the funding of liabilities resulting from the most recent plan amendments and actuarial reviews, did not exceed the accumulated surpluses of the plans; consequently, no contribution was required by the Company in 1985 and 1984. The latest actuarial valuation was as of December 31, 1984.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 2

THE DE HAVILLAND AIRCRAFT OF CANADA, LIMITED

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
THE DE HAVILLAND AIRCRAFT OF CANADA, LIMITED

We have examined the consolidated balance sheet of The de Havilland Aircraft of Canada, Limited as of December 31, 1985, and the consolidated statements of loss and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of The de Havilland Aircraft of Canada, Limited as of December 31, 1985, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions of the Company which have come to our notice were in accordance with the Financial Administration Act, the regulations, the charter, and the bylaws of the Company and any directive given to the Company.

Arthur Andersen & Co.
Chartered Accountants

Toronto, Canada
February 10, 1986

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984
		Note 20
Current assets		
Cash and short-term deposits (Note 4)	39,329	21,150
Accounts receivable (Note 5)	25,878	15,175
Notes receivable		237
Inventories (Note 6)	237,020	144,990
Prepaid expenses	1,079	220
	303,306	181,772
Property, plant and equipment (Note 7)	42,506	44,758
	345,812	226,530

LIABILITIES	1985	1984
		Note 20
Current liabilities		
Bank indebtedness	979	430
Accounts payable	51,062	26,053
Accrued charges and provisions	109,191	108,629
Deposits on sales contracts	39,528	15,981
	200,760	151,093
Long-term debt (Note 8)	18,379	54,333
Deferred income taxes	17	22
	219,156	205,448
SHAREHOLDERS' EQUITY		
Share capital (Note 9)		
Authorized (unlimited number)		
Class A shares without par value		
Class B common shares without par value		
Issued		
32,000 Class A shares and 10,000 Class B common shares	306	306
Contributed surplus (Note 10)	700,000	500,000
Deficit	(573,650)	(479,224)
	126,656	21,082
	345,812	226,530

Contingencies (Notes 1(a) and 16)
The accompanying notes to the consolidated financial statements are an integral part of this consolidated balance sheet.

Approved by the Board:

W. B. BOGGS
Director

G. B. SAMPSON
Director

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 2—*Continued*

THE DE HAVILLAND AIRCRAFT OF CANADA, LIMITED—*Continued*

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984 Note 20
Sales	299,613	204,001
Expenses		
Cost of products and services	233,924	158,164
Selling and general administration	42,433	30,555
Sustaining development and research	3,944	3,919
	280,301	192,638
Income from operations	19,312	11,363
Dash 8 development and excess production costs (Note 3)	114,724	78,075
Net interest (income) expense	(810)	9,878
Loss before scientific research tax credit transfer and income taxes	(94,602)	(76,590)
Scientific research tax credit transfer (Note 13)		36,417
Loss before income taxes	(94,602)	(40,173)
Income taxes (recovery)	(176)	204
Net loss	(94,426)	(40,377)
Deficit, beginning of year	(479,224)	(438,847)
Deficit, end of year	(573,650)	(479,224)

The accompanying notes to the consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (NOTE 1(a)) FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984 Note 20
Sources of funds		
Increase in accounts payable, accrued charges and provisions	25,566	8,879
Increase in contributed surplus (Note 10)	200,000	240,000
Increase in long-term debt		39,000
Decrease (increase) in notes receivable	237	(107)
Increase (decrease) in deposits on sales contracts	23,547	(2,308)
	249,350	285,464
Uses of funds		
In operations		
Net loss	94,426	40,377
Adjustments for non-cash items		
Depreciation	(4,536)	(4,389)
Building written off		(3,825)
	89,890	32,163
Increase in accounts receivable	10,703	1,690
Additions to property, plant and equipment	2,284	867
Repayment of long-term debt	35,954	270,557
Increase (decrease) in inventories	92,030	(38,679)
Increase (decrease) in prepaid expenses	859	(1,215)
	231,720	265,383
Net increase in funds	17,630	20,081

The accompanying notes to the consolidated financial statements are an integral part of this statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1985
(All dollar amounts other than share data are stated in thousands)

1. Summary of significant accounting policies

The consolidated financial statements, have been prepared in accordance with accounting principles generally accepted in Canada, and reflect the following significant policies:

(a) Basis of financial statements presentation and consolidation

The consolidated financial statements have been prepared on the basis that the Company will continue as a going concern. The realization of the carrying value of the recorded assets is dependent upon the success of the future operations. See Note 2 for acquisition of the Company by The Boeing Company.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, De Havilland Canada, Inc.

The consolidated financial statements have been prepared in accordance with the provisions of the Financial Administration Act.

The Consolidated Statement of Changes in Financial Position defines funds as cash and short-term deposits less bank indebtedness.

(b) Nature of business

The Company is engaged primarily in the business of development, manufacture, and sale of aircraft and spare parts.

(c) Inventories

Inventories are stated as follows:

Raw materials—At the lower of average cost and net realizable value.

Work-in-progress, new and used aircraft, spare parts, goods in transit, and sub-contract progress payments—At the lower of cost and net realizable value.

All inventories, net of customers progress payments, and including that portion not expected to be realized within one year, are included in current assets.

(d) Program accounting

With respect to new programs, the cost of each aircraft sale and inventories of work-in-progress and finished aircraft is determined using the program average production cost method. The cost of sale for a particular aircraft delivered is computed at the percentage of the published selling price that the total of the estimated production costs for the entire aircraft program bears to the total estimated sales prices for the total program. This same method is used in establishing costs for inventory purposes for completed aircraft and those in process of manufacture.

Production costs incurred early in a program, which are greater than the estimated program average production costs, are transferred to deferred charges. These deferred charges, together with deferred development and tooling costs, are amortized over the estimated breakeven number of aircraft (see Note 3).

Such deferred charges are periodically reviewed throughout the life of the respective programs and adjusted to estimated net realizable value if necessary.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 2—*Continued*

THE DE HAVILLAND AIRCRAFT OF CANADA, LIMITED—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1985—*Continued*

(e) Property, plant and equipment

Property, plant and equipment are stated at cost. When the cost of an individual asset exceeds $1,000 and deposits or progress payments are made during the period of construction or purchase, interest is capitalized at the cost of corporate borrowings. Depreciation is provided for on a straight-line basis so as to amortize the cost of depreciable assets over their estimated useful lives.

(f) Revenue recognition

(i) Revenue from aircraft sales is recorded upon acceptance and payment in full for the aircraft by the customer.

(ii) The Company undertakes some research and development under contract which provides for the company to bill the customers as costs are incurred; such amounts are recorded as sales.

(g) Translation of foreign currencies

Foreign currencies are translated into Canadian dollars as follows:

(i) Monetary assets and monetary liabilities—At the rate of exchange prevailing at the balance sheet date.

(ii) Other assets and liabilities, sales and expenses—At a rate approximating the rate of exchange prevailing on the dates of the transactions.

(h) Pensions

The Company has a number of retirement plans covering substantially all of its employees. Costs of these plans are charged to earnings and funded on the basis of actuarial calculations made every three years. Current service costs are charged to earnings on a current basis. Past service costs are being funded and charged to earnings over periods up to 15 years from the dates such costs are established.

2. Subsequent event

On January 31, 1986 the Government of Canada entered into an agreement pursuant to which The Boeing Company acquired from Canada Development Investment Corporation, 31,999 Class A shares and 10,000 Class B common shares of the Company's issued share capital.

3. Deferred charges

Certain costs applicable to the Dash 8 are deferrable depending upon long-term forecasts of sales and costs in which assumptions are made as to expected sales volumes, prices and production costs, and taking into account such factors as interest rates and exchange rates. Many of the components of these forecasts are beyond the Company's control and hence cannot be quantified with sufficient precision to project reasonably the long-term position of the Dash 8 program. Accordingly, all deferrable charges incurred in the year ended December 31, 1985 amounting to $114,724 (1984—$78,075) have been expensed.

4. Cash and short-term deposits

Included in cash and short-term deposits are deposits totalling $240 (1984—$485) which are assigned as security for amounts owing to a commercial bank by the Company's customers and prospective customers.

5. Accounts receivable

	1985	1984
Trade	16,839	11,615
Other	9,039	3,560
	25,878	15,175

6. Inventories

	1985	1984
Raw materials	54,352	21,414
Work-in-progress	161,872	91,097
New and used aircraft	49,406	39,579
Spare parts	21,228	16,932
Goods in transit	8,886	11,854
Sub-contract progress payments	9,458	11,099
	305,202	191,975
Customer progress payments	(68,182)	(46,985)
	237,020	144,990

7. Property, plant and equipment

	1985			1984	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Depreciation Rates
Land	10		10	10	
Buildings	44,039	13,856	30,183	31,712	4%
Property improvements	3,090	1,028	2,062	2,163	4%
Machinery and equipment	31,020	20,933	10,087	10,751	12 ½%-20%
Transportation equipment	1,188	1,024	164	122	25%
	79,347	36,841	42,506	44,758	

8. Long-term debt

Borrowings under extendable term loans guaranteed by the Government of Canada amount to $7,669. At December 31, 1985 the Government of Canada retained the authority to guarantee certain financial arrangements of the Company with financial institutions to a maximum of $450,000. The borrowings bear interest at rates which fluctuate with bank prime and money market rates that approximated 10% per annum at December 31, 1985. The balance of $10,710 represents a U.S. denominated loan in the amount of U.S. $7,659 bearing interest at a rate of 8 ½% per annum, repayable in eight equal semi-annual installments commencing March 1987.

9. Share capital

Each Class A share is equivalent to each Class B common share in all respects, except that each Class A share is entitled to a non-cumulative preferential dividend of $2 in any year in which dividends are paid on Class B shares common shares. After payment of such dividends, both classes of shares participate fully in other dividends.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 2—*Continued*

THE DE HAVILLAND AIRCRAFT OF CANADA, LIMITED—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Continued*

10. Contributed Surplus

During 1985, the Government of Canada contributed $200,000 (1984—$240,000) to the Company's equity.

11. Export Sales

Sales to foreign customers amounted to $242,393 (1984—$188,879).

12. Income Taxes

At December 31, 1985, losses carried forward for tax purposes aggregate $220,552. These losses expire as follows:

1987	56,402
1990	67,736
1991	40,957
1992	55,457
	220,552

These losses carried forward for tax purposes have been amended to reflect a reassessment.

In addition, the Company has recorded depreciation in excess of capital cost allowance claimed for tax purposes of approximately $106,000 and has deferred research and development expenses of approximately $147,000.

The Company has investment tax credits available for tax purposes of $15,054 that expire as follows:

1986	4,809
1987	3,366
1990	2,109
1991	59
1992	4,711
	15,054

The Boeing sale agreement restricts the utilization of certain of the above items for tax purposes (see Note 2). No recognition has been given in these consolidated financial statements to the potential tax savings which could result from the utilization of the above items.

13. Scientific research tax credits

On February 28, 1984, the Company transferred to third parties scientific research tax credits relating to the period April 21, 1983 to December 31, 1984. This has resulted in net proceeds to the Company of $36,417 of which $19,685 related to 1984.

14. Pension plan

The estimated present value of the unfunded past service costs, including pension plan improvements made during 1985, not charged to earnings at December 31, 1985 amounts to $23,889 of which $11,219 is vested.

15. Commitments

(a) Lease commitments

Lease commitments under operating leases with terms of more than one year total $362 and are payable as follows:

1986	313
1987	44
1988	5
	362

(b) Capital commitments

Capital expenditures committed but not expended as at December 31, 1985, amount to approximately $4,064.

(c) Purchase commitments

The nature of the Company's business requires that it make substantial purchase commitments in anticipation of production and sales of aircraft. At December 31, 1985, such commitments amounted to approximately $469,000.

Under an agreement for sale and repurchase, the Company has sold engines to a financial institution at cost with an obligation to repurchase the engines in the future. The Company is charged interest at bank prime on the total commitment.

	1985	1986
Repurchase commitment	8,151	9,662
Interest expense	929	1,228

16. Contingencies

(a) As indicated in Note 3, the ultimate results of the Dash 8 program cannot be determined at this time. If future program assessments indicate that a future loss on the overall program will arise, a provision will be made at that time.

(b) Some suppliers with whom the Company has purchase commitments have filed claims for costs resulting from revised production schedules. The Company has made provision for costs which may be incurred in settling these claims. However, because of the complexity of negotiations and the many variables involved, some of which depend on future events, any liability with respect to such suppliers' claims cannot be quantified with precision.

(c) Contingent liabilities arising primarily from sales related guarantee arrangements and conditional repurchase agreements amount to approximately $56,000. The Company has recourse to transaction related assets for substantially all of these contingent liabilities.

(d) The total amount of government participation which is contingently repayable amounts to $106,987. At December 31, 1985 no provisions has been made in the accounts for this contingency as repayment is dependent on future profits, sales or profitability of various programs and future reinvestment in Company research and development programs.

(e) A customer may be in a position to justify a claim against the Company arising from a representation, which may have been inaccurate, contained in an aircraft sales contract consummated in a prior period. No provision has been made for such a potential claim since legal counsel has advised that an accurate estimate cannot be made of the amount, if any, which the customer might successfully claim, but that the potential liability is up to $12,625 and, in the event of litigation, any additional award which might be permitted at the discretion of the court. Any amount ultimately paid by the Company would be treated as a prior period adjustment. Information relevant to this matter was improperly withheld from the Company, and, if that information had been available, the disclosure set out above would have appeared in the financial statements for the periods ended May 31, 1982 and December 31, 1982.

(f) The Company is engaged in various legal proceedings. The Company does not anticipate that the amounts, if any, which may be required to be paid by the Company will be material.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 2—*Concluded*

THE DE HAVILLAND AIRCRAFT OF CANADA, LIMITED—*Concluded*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1985—*Concluded*

17. Related party transactions

The Canada Development Investment Corporation (a Crown corporation) owns all, except one, of the Company's outstanding shares. In 1985, sales of products to various Federal agencies and departments and Crown corporations amounted to $8,271 (1984—$5,270).

Management fees paid to Canada Development Investment Corporation amounted to $1,104 (1984—$2,208).

In 1985 the Company received $1,600 (1984—$1,581) under various Government of Canada assistance programs.

18. Remuneration of directors and officers

	Directors' fees	Remuneration	Bonus	Other	Total
Directors					
Number of directors: 26*	107				107
Officers					
Number of officers: 8		935		125**	1,060
Total	107	935		125	1,167

*Includes 2 directors who received no directors' fees.

**Includes aggregate cost of pension plan benefits paid into pension fund, and retiring allowance.

19. Commercial practice

During 1985, the Company had 75 agreements relating to marketing and sales with representatives, consultants, and distributors, to whom commissions and fees may be payable. Payments in 1985 aggregated $5,033 (1984—$8,653) of which $1,779 was in respect to obligations incurred prior to 1985. For reasons of commercial confidentiality the Company does not publish the names of its representatives, consultants and distributors.

20. 1984 financial statements

The 1984 financial statements, which are presented for comparative purposes, were examined and reported on by Chartered Accountants other than Arthur Anderson & Co. In addition, certain amounts in these consolidated financial statements have been reclassified to conform to the current year's presentation.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 3

ELDORADO NUCLEAR LIMITED

AUDITORS' REPORT

TO THE SHAREHOLDER

We have examined the statement of consolidated financial position of Eldorado Nuclear Limited as at December 31, 1985 and the statements of consolidated earnings and retained earnings and changes in consolidated financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Company that have come to our notice during our examination of the consolidated financial statements have, in all significant respects, been in accordance with the Financial Administration Act and regulations, and the charters and by-laws of the Company.

The financial statements of the preceding year were examined by other Chartered Accountants.

Clarkson Gordon
Chartered Accountants

Ottawa, Canada
February 5, 1986

STATEMENT OF CONSOLIDATED FINANCIAL POSITION AS AT DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Current assets		
Cash and short-term investments	40,480	5,779
Accounts receivable	12,855	44,017
Income taxes receivable	6,435	11,872
Inventories	55,284	103,497
Supplies and prepaid expenses	11,872	11,321
	126,926	176,486
Current liabilities		
Bank loans and short-term debt	106	20,000
Accounts payable	64,526	67,161
Long-term debt due within one year	79,968	
	144,600	87,161
Working capital (deficiency)	(17,674)	89,325
Non-current assets		
Property and equipment	798,428	795,141
Deferred charges	28,597	23,267
Inventory committed under long-term contracts	29,306	
Other assets	3,349	3,471
	859,680	821,879
Capital employed	842,006	911,204
Represented by		
Long-term debt	513,471	577,360
Advances under long-term contracts	52,490	
Other liabilities	3,510	5,551
Provision for reclamation	24,031	22,585
Minority shareholding in a subsidiary	43,500	43,500
	637,002	648,996
Shareholder's equity		
Share capital	296,586	296,586
Retained earnings (deficit)	(91,582)	(34,378)
	205,004	262,208
Total financing of capital	842,006	911,204

(See accompanying notes).

Approved by the Board of Directors:

MARCEL BÉLANGER
Director

N. M. EDIGER
Director

STATEMENT OF CONSOLIDATED EARNINGS AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Revenue		
Sales of products and services	219,792	208,139
Expenses		
Cost of products and services sold	139,781	127,168
Exploration	5,796	5,779
Research and development	2,649	2,822
Administration	7,520	8,209
Total operating expenses	155,746	143,978
Earnings from operations	64,046	64,161
Financing expense	73,126	52,316
Other expense (income)	19,344	(1,296)
Earnings before taxes and other items	(28,424)	13,141
Income taxes and mineral royalties	24,430	16,595
Distribution to preferred shareholders of a subsidiary	4,350	3,119
Earnings (loss) before extraordinary item	(57,204)	(6,573)
Reduction of provision for mine shutdown		11,000
Net earnings (loss)	(57,204)	4,427
Retained earnings (deficit) beginning of year	(34,378)	(38,805)
Retained earnings (deficit) end of year	(91,582)	(34,378)

(See accompanying notes).

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 3—*Continued*

ELDORADO NUCLEAR LIMITED—*Continued*

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Operating activities		
Cash received from sales	252,674	205,623
Advances under long-term contracts	52,490	
	305,164	205,623
Cash applied to		
Production costs	91,754	93,738
R&D, exploration and administration	15,357	15,980
Mineral royalties	23,374	16,595
	130,485	126,313
Cash provided from operations	174,679	79,310
Financing activities		
Cash received from		
Income on investments	1,025	630
New long-term debt		125,071
Sale of royalty interest		5,000
Sale of R&D tax credits		2,485
	1,025	133,186
Cash applied to		
Repayment of long-term debt		70,000
Net change in short-term debt	19,894	18,108
Interest on debt	76,582	65,925
Distribution to preferred shareholders	4,350	3,119
	100,826	157,152
Cash required for financing	99,801	23,966
Total cash provided from operations and external financing	74,878	55,344
Investing activities		
Cash received from		
Prior year income tax overpayment	8,312	14,299
Sale of equipment	782	1,582
	9,094	15,881
Cash applied to		
Additions to property and equipment	38,962	49,785
Additions to deferred charges	6,754	7,137
Mine shutdown	3,555	3,533
Purchase of net profits interest		5,000
	49,271	65,455
Cash required for investment	40,177	49,574
Increase during the year	34,701	5,770
Cash and short-term investments at beginning of year	5,779	9
Cash and short-term investments at end of year	40,480	5,779

(See accompanying notes).

STATEMENT OF ACCOUNTING POLICIES

The accompanying consolidated financial statements were prepared by management in conformance with Canadian generally accepted accounting principles considered to be appropriate in the circumstances, and have been applied on a basis consistent with that of the preceding year. A summary of significant accounting policies of the Company is presented to assist the reader in interpreting the statements contained herein.

Consolidation

The consolidated financial statements include the accounts of Eldorado Nuclear Limited, its wholly-owned subsidiaries, and the Company's proportionate interest in the accounts of the Key Lake mine joint venture.

Inventories

Inventories of mine concentrates, refined and converted products are valued at the lower of weighted average cost or net realizable value. Cost for customer-owned products is the cost of the refining and conversion processes only.

Inventories of mine concentrates are initially measured and accounted for in the financial statements when the material is sealed in containers upon completion of the milling process.

Supplies

Operating and general supplies are carried at lower of cost or market.

Property and equipment

Assets are carried at cost. Costs of additions, betterments, and renewals are capitalized. When assets are retired or sold, the resulting gains or losses are reflected in current earnings.

Maintenance and repair expenditures are charged to cost of production.

Depreciation and amortization

Fuel Services and Mining buildings and equipment, mine development and mineral properties are depreciated or amortized according to the unit-of-production method. This method allocates the cost of these assets to each accounting period. For Fuel Services, the amount is equal to the portion of the facilities' total estimated lifetime production produced in that period. For Mining, the amount is equal to the portion of the mines' total recoverable ore reserves recovered in that period.

Mobile mining equipment and other assets, including R & D, Exploration, Specialty Metals, and Corporate assets, are depreciated according to the composite straight-line method based on the estimated useful lives of these assets, which range from three to ten years.

Fuel Services and certain mining facility costs associated with capacity additions are deferred until a commercial level of production is achieved. These costs are then amortized over 10 years in the case of Fuel Services assets, and according to the unit-of-production method in the case of Mining assets. Other costs are charged to production as incurred.

Amortization of financing costs

Debt discounts and issue expenses associated with long-term financing are deferred and amortized over the term of the debt.

Capitalization of interest

Interest costs on funds borrowed to finance the development and construction of major assets are capitalized during the development and construction period until such time as a commercial level of production is achieved.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 3—*Continued*

ELDORADO NUCLEAR LIMITED—*Continued*

STATEMENT OF ACCOUNTING POLICIES—*Concluded*

Provision for reclamation

The estimated costs of decommissioning and reclaiming producing resource properties are accrued and charged to operations according to the unit-of-production method. Actual costs of decommissioning and reclamation are applied to this accrual.

Research and development and exploration costs

Expenditures for applied research and development relative to the products and processes of the Company and expenditures for geological exploration programs are charged against earnings as incurred.

Sales of products and services

In accordance with normal industry practices, the Company contracts for future delivery of mine concentrates and conversion services. Sales revenue is recorded in the fiscal year that title passes or, with customer-owned material, when delivery is effected.

Foreign exchange

Cash and short-term investments, accounts receivable, accounts payable and long-term debt denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at year-end. Income and expenses are translated at rates in effect at the time of the transaction.

Except for certain U.S. dollar-denominated long-term debt that is hedged against future U.S. dollar revenue, the change in value in Canadian funds over the year of long-term debt denominated in a foreign currency is amortized evenly over the remaining life of the debt. For all other accounts, gains or losses resulting from foreign currency translation are reflected in the statement of consolidated earnings and retained earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1985

1. Eldorado Nuclear Limited

Eldorado Nuclear Limited is incorporated under the Canada Business Corporations Act, is subject to the Financial Administration Act, the Government Companies Operations Act, is an agent of Her Majesty in Right of Canada, and is wholly-owned by Canada Development Investment Corporation (CDIC).

The Company is primarily engaged in the mining, refining and conversion of uranium for sale as fuel for generating electricity in nuclear power reactors in Canada and other countries.

2. Accounting policies

A statement of significant accounting policies of the Company is provided elsewhere herein.

3. Other expense (income)

	1985	1984
	(in thousands of dollars)	
Loss on foreign exchange	14,110	2,241
Write-down of fixed assets	6,226	
Interest on investments	(459)	(630)
Other	(533)	(422)
Sale of R&D tax credits		(2,485)
Total	19,344	(1,296)

4. Income taxes and mineral royalties

The provisions for income taxes and mineral royalties are as follows:

	1985	1984
	(in thousands of dollars)	
Income taxes		
Mineral royalties	24,430	16,595
Total	24,430	16,595

The reconciliation between the statutory income tax rate and the company's effective rate of income tax is as follows:

	Percentage of Pre-tax Earnings	
	1985	1984
	%	%
Statutory income tax (recovery) rate	(51.9)	50.9
Resource and depletion allowances	(18.9)	(68.7)
Adjusted income tax (recovery) rate	(70.8)	(17.8)
Inventory allowance	(5.7)	(13.3)
Increase in unrecorded income tax debits	76.5	31.1
Effective income tax rate	0.0	0.0

Provincial mineral royalties, which are not deductible for federal income tax purposes, are calculated in part as a percentage of revenues. Consequently, they can fluctuate significantly from year to year.

At December 31, 1985, the Company had tax loss carry-forwards, investment tax credits and timing differences aggregating $133.2 million for which no accounting benefit has been recognized. This amount includes $107.8 million which will expire at various dates up to 1992. The balance may be carried forward indefinitely.

5. Inventories

	1985	1984
	(in thousands of dollars)	
Mine concentrates	39,412	78,515
Fuel services	14,231	23,084
Specialty metals	1,641	1,898
Total	55,284	103,497

6. Property and equipment

	1985	1984
	(in thousands of dollars)	
Mining		
Plant and equipment	176,700	174,799
Mine development	47,612	46,485
Mineral properties	156,460	156,460
Under development	98,004	66,534
Fuel services		
Plant and equipment	407,584	428,431
Other	15,050	16,509
Total property and equipment	901,410	889,218
Less: accumulated depreciation and amortization	102,982	94,077
Net property and equipment	798,428	795,141
Depreciation and amortization for year	30,714	29,064

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 3—*Continued*

ELDORADO NUCLEAR LIMITED—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1985—*Continued*

7. Joint venture activities

Through a wholly-owned subsidiary, the Company is a one-sixth partner in a joint venture mining operation at Key Lake, Saskatchewan. In accordance with the joint venture agreement, Eldorado is obligated to meet its proportionate share of the commitments of the joint venture. Other than normal operating expenditures, the Company has no outstanding commitments as at December 31, 1985.

The following amounts are included in the financial statements and represent the Company's proportionate share of the assets, liabilities, and operating expenses of the Key Lake mining joint venture:

	1985	1984
	(in thousands of dollars)	
Assets	93,582	92,254
Liabilities	1,814	1,629
Net assets	91,768	90,625
Expenses	8,469	9,126

8. Deferred charges

	1985	1984
	(in thousands of dollars)	
Preproduction	25,431	19,185
Financing costs	3,166	4,082
Total	28,597	23,267
Amortization for year	2,354	2,037

9. Long-term sales contracts

Eldorado has entered into contracts which provide for the future sale and delivery of uranium in the form of UF_6 at flexible dates over the eight-year term of the contracts. The Company has sold the future sales contract to interested financing parties and has retained certain rights and obligations under all of the contracts. On the Statement of Consolidated Financial Position, the Company has segregated the inventory committed and the advances under long-term contracts which will be satisfied out of the future revenues associated with these transactions. The impact on the Statement of Consolidated Earnings and Retained Earnings will be recognized as deliveries take place.

10. Minority shareholding in a subsidiary

In April, 1984, an Eldorado subsidiary acquired all rights to and benefits in the 1970 New Continental Oil (NCO) royalty agreement from Aberford Resources Ltd. Hacienda Oil & Minerals Ltd. and Oak Ridge Oil & Minerals Ltd. This agreement gives the holder a 20 per cent interest in the profits derived from certain Athabasca basin properties held by the Eldor Mines division and others. Consideration was $5 million cash and $43.5 million redeemable preferred shares of the subsidiary company. The shares, with certain restrictions, can be redeemed between 1988 and 1994 and bear a 10 per cent annual dividend.

As security, the three companies hold a lien on certain uranium inventory. At Eldorado's option, the lien can also be satisfied from time to time by a letter of credit. The lien covers the value of the subsidiary's redeemable preferred shares plus future dividends, through to the shares' designated redemption dates. Each payment of a dividend or redemption of a share reduces the lien by a similar amount. At December 31, 1985, the Company had inventories in excess of the prescribed value.

For consideration of $5.0 million cash, Aberford Resources Limited, Hacienda Oil & Minerals Ltd. and Oak Ridge Oil & Minerals Ltd. acquired from Eldorado a royalty interest on uranium sales from certain designated properties. The royalty covers that portion of such sales in excess of a designated base selling price which is adjusted annually for inflation. During 1985, sales did not exceed the adjusted base price and no royalty was paid.

11. Long-term debt

	1985	1984
	(in thousands of dollars)	
(i) From Canada		
11.875% notes due 1986	10,093	10,093
(ii) Other		
Notes due 1986, at 13.25% ($50 million U.S.)	69,875	66,070
Loan due 1991, at 7% (100 million Swiss francs)	67,860	50,800
Notes due 1988, at 9.19% (10.108 billion Japanese yen)	70,594	53,097
Loan due 1987-1992, at 8.8% (2 billion Japanese yen)	13,968	10,506
Notes due 1992, at 14.5% ($100 million U.S.)	139,750	132,140
Loan due 1992, at 14.25% ($44,7 million U.S.)	62,399	59,002
Bonds due 1992, at 8.5% (10 billion Japanese yen), with 10% of principal due in each of years 1988-1991	69,840	52,530
Debenture due 1988, at 11%	30,000	30,000
Euro notes, due 1989 to be set semi-annually at LIBOR rate ($100 million U.S.)	139,750	132,140
Sub-total	674,129	596,378
Less: current portion of long-term debt listed above	79,968	
deferred loss on foreign exchange	80,690	19,018
Total	513,471	577,360

The long-term debt payments due in each of the next five years are as follows: 1986—$80.0 million; 1987—$1.4 million; 1988—$110.4 million; 1989—$149.5 million; 1990—$9.8 million. Interest on long-term debt amounted to $74.9 million (1984—$68.3 million).

12. Share capital

	1985	1984
Authorized		
Common shares	(Unlimited number, no par value)	
Preference shares	1,600,000	1,600,000
	(in thousands of dollars)	
Issued and fully paid		
Common—3,852,880 shares (1984—3,852,880)	201,586	201,586
Preference—800,000 shares (1984—800,000)	95,000	95,000
	296,586	296,586

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Concluded*

APPENDIX 3—*Concluded*

ELDORADO NUCLEAR LIMITED—*Concluded*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1985—*Concluded*

Each preference share is redeemable at the option of either party at a value of $118.75 per share and carries a non-cumulative dividend of $7.125 per annum.

13. Commitments and contingencies

(a) The Company has entered into long-term leases on certain properties up to 1987 with annual rental payments averaging $385,000.

(b) The Company has defined benefit pension plans covering all of its regular full-time employees. The pension funds, which are administered by independent trustees, are valued at least every three years by consulting actuaries. Based on the latest actuarial valuations at June 30, 1985 and November 1, 1984, the plans have a surplus of $14.5 million.

(c) The Company maintains two sites, licensed by the Atomic Energy Control Board, for the temporary storage of waste material containing low levels of radioactivity and other materials. The final disposition of this material is the subject of active discussions among Government agencies. The Company will continue to expense the ongoing maintenance costs of these sites, but will make no provision for additional costs until the responsibility for such costs are determined and can be reasonably estimated.

(d) In connection with its operations, the Company is the defendant in certain litigation. While the amount of any ultimate liability cannot yet be determined, the Company is of the opinion that there will be no material adverse effect on its financial position.

14. Supplementary information

(a) During 1985, the Company paid sales commissions to Marubeni Corporation, Toyomenka Canada Ltd., and Uranerzbergbau-GmbH.

(b) Interest costs of $4.6 million paid in 1985 have been capitalized under property and equipment (1984—$18.0 million).

(c) During 1985, the total remuneration paid to the Company's outside directors was $93,709 (1984—$95,500). The Company's officers received remuneration totalling $607,500 (1984—$650,129). One officer is also a director but is not compensated for service as a member of the Board or its committees.

(d) A management fee of $286,000 (1984—$534,000) was paid to Canada Development Investment Corporation.

15. Segmented information

(a) Industry Segment

The Company is of the opinion that virtually all its sales revenues are in the industry segment identified as the nuclear fuel industry.

(b) Sales

Sales revenues, which are derived primarily from sales to foreign and domestic electric utilities, are as follows:

	1985	1984
	(in thousands of dollars)	
Export sales	164,806	159,297
Domestic sales	54,986	48,842
Total sales	219,792	208,139

16. Provision for mine shutdown

Established in 1981, the provision for the Beaverlodge mine shutdown represented the expected remaining cost of decommissioning and reclaiming the Beaverlodge mine site. Since then, costs related to the shutdown have been applied against the provision. The shutdown work has been completed. As a result, in 1984 the provision was reappraised with the excess, $11.0 million, being recorded as extraordinary income while the remaining liability has been added to accounts payable. The related income tax of $5.6 million was set off against available income tax debits.

17. Sale of R&D tax credits

In 1984 the Company sold Scientific Research Tax Credits to an outside investor by issuing to that investor a $5.0 million debenture carrying a redemption price of approximately one-half its purchase price. The debenture was redeemed, resulting in a gain of $2.5 million.

SUMMARY PAGE

CANADA HARBOUR PLACE CORPORATION

MANDATE

Construct, administer and dispose of properties in Vancouver to be used for Canada's participation as host nation for Expo '86.

BACKGROUND

The Corporation commenced operations in 1982 and is currently managing the Canada Pavilion at Expo '86. The facilities called Canada Place include a cruise ship terminal for the Vancouver Port Corporation, the Canada Pavilion and a hotel-office complex built for the Tokyu Corporation. Following Expo '86, the Pavilion will be converted to a trade and convention centre and turned over to the Province of British Columbia on July 1, 1987. The total cost of the facilities to the Corporation is estimated at $229 million of which $157 million is expected to be contributed by the federal government, $23 million by the Vancouver Port Corporation, $30 million by the Tokyu Corporation and $19 million from other sources.

CORPORATION DATA

HEAD OFFICE	1660-999 West Hastings Street Vancouver, British Columbia V6C 2W2
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	In June 1982, by letters patent (no. 132316) under the *Canada Business Corporations Act.*
CHIEF EXECUTIVE OFFICER	Vacant
CHAIRMAN	Ian Barclay
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	145.2*	88.3	34.8	12.9
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	132.7	76.5	28.4	7.4
Cash from Canada in the period				
— budgetary	56.2	48.1	20.9	7.4
— non-budgetary	nil	nil	nil	nil

* The assets include $45.2 million costs of design, construction and fitting-out of Expo '86 facilities which will be charged to operations during the term of the Exposition.

CANADA HARBOUR PLACE CORPORATION

AUDITOR'S REPORT

THE HONOURABLE DON MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

I have examined the balance sheet of Canada Harbour Place Corporation as at March 31, 1986 and the statement of changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, and the articles and by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
May 23, 1986

BALANCE SHEET AS AT MARCH 31, 1986
(in thousands of dollars)

ASSETS	1986	1985	LIABILITIES	1986	1985
Cash and short-term investments	29,177	6,227			
Parliamentary appropriation receivable		19,200	Accounts payable	12,479	11,751
Accounts receivable	4,505	2,951	SHAREHOLDER'S EQUITY		
Construction in progress (Note 3)	66,288	52,233	Capital stock (Note 5)		
Deferred costs (Note 4)	45,212	7,650	Contributed capital (Note 5)	132,703	76,510
	145,182	88,261		145,182	88,261

Approved by the Board:

J. H. GREEN
Director

IAN A. BARCLAY
Director

CANADA HARBOUR PLACE CORPORATION—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Source of funds		
Contributed capital (Note 5)	56,193	48,155
Add (deduct) parliamentary appropriation receivable	19,200	(19,200)
	75,393	28,955
Development, sponsorship and lease agreements (Note 3)	11,997	18,710
Deferred revenue (Note 4)	3,377	286
Accounts payable	728	5,347
	91,495	53,298
Use of funds		
Deferred costs (Note 4)	40,939	7,861
Construction in progress (Note 3)	26,052	42,795
Accounts receivable	1,554	2,947
	68,545	53,603
Increase (decrease) in funds	22,950	(305)
Cash and short-term investments		
Beginning of year	6,227	6,532
End of year	29,177	6,227

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986

1. Authority and objectives

The Canada Harbour Place Corporation was incorporated on June 9, 1982 under the Canada Business Corporations Act. The Corporation is an agent of Her Majesty pursuant to the Government Companies Operation Act, and is named as an agency Crown corporation in Part I of Schedule C of the Financial Administration Act. The three shares issued and outstanding are all held in right of Canada by the Minister of Transport, the Responsible Minister with whom control of the Corporation lies.

The Corporation is exempt from income taxes.

The objectives of the Corporation are to act as a developer and acquire, administer and dispose of land, and manage real property for the Government of Canada in Vancouver, B.C. For this purpose, it is to design and construct a facility at Canada Place to include a cruise ship terminal and a Canadian host pavilion for Expo 86 suitable to be converted to a trade and convention centre. In addition, the Corporation has the authority to manage and operate the facility at Canada Place, either by itself or with others, and organize, operate and manage the participation of the Government of Canada as exhibitor and host nation for Expo 86.

The total cost of the facility at Canada Place, including the Canada Pavilion for Expo 86 and the cost to convert the Pavilion to a Trade and Convention Centre, is estimated at $229.4 million of which $157.4 million is expected to be contributed by the Government, $22.8 million by the Vancouver Port Corporation in respect of the cruise ship terminal and $49.2 million from other sources.

The Responsible Minister is to recommend to the Governor in Council prior to December 31, 1988 on the continued activities of the Corporation beyond that date.

2. Significant accounting policies

Construction in progress

All expenditures including those for acquisition, design, construction and administration for the permanent structures at Canada Place will be capitalized until the facility is fully developed. Interest income is credited to construction in progress. Receipts from the sale of development rights, leaseholds and the Imax Theatre sponsorship are also deducted from the construction costs.

Deferred costs—Canada Pavilion

The expenditures to design, construct and fit-out the Canada Pavilion and to organize, operate and manage the participation of the Government of Canada as exhibitor and host nation for Expo 86 respectively are recorded as deferred expenses and will be charged against operations during the operating period of the Exposition from May to October 1986. Related revenues received in advance of the operating period of the Canada Pavilion and Canada Place facilities are deferred until the operating period of these facilities.

Administration

Corporate and construction administration expenses are charged against construction in progress. Canada Pavilion administration expenses not directly charged to Pavilion departments are disclosed as general administration.

3. Construction in progress

	Cumulative to March 31, 1985	1986	Cumulative to March 31, 1986
	(in thousands of dollars)		
Site purchase	3,731		3,731
Siteworks and substructure	18,417	(5)	18,412
Structural steel	14,895		14,895
General contract	43,415	17,108	60,523
Architects and consultants	6,890	665	7,555
Access	8,545	2,275	10,820
	95,893	20,043	115,936
Administration	5,262	2,053	7,315
	101,155	22,096	123,251
Less interest income	2,612	2,017	4,629
	98,543	20,079	118,622
Trade and Convention Centre conversion	338	5,083	5,421
Building management		890	890
Total costs	98,881	26,052	124,933
Less receipts			
Lease agreements (Note 6)	29,838	1,000	30,838
Development agreement (Note 7)	16,810	5,997	22,807
Sponsorship agreement (Note 8)		5,000	5,000
Total receipts	46,648	11,997	58,645
Costs, net of receipts	52,233	14,055	66,288

Title to that part of the bed of Vancouver harbour on which the facility is located was transferred to the Corporation from Vancouver Port Corporation for one dollar and has been so recorded in site purchase costs.

4. Deferred costs

	Cumulative to March 31, 1985	1986	Cumulative to March 31, 1986
	(in thousands of dollars)		
Canada Pavilion costs			
Exhibitry	2,319	14,257	16,576
Infrastructure		11,835	11,835
Imax Theatre	3,051	2,833	5,884
General administration	1,816	2,061	3,877
Other construction	82	3,424	3,506
Cultural programs	235	2,750	2,985
Public affairs	423	1,631	2,054
Operations	8	1,692	1,700
Commissioner General	2	456	458
Total deferred costs	7,936	40,939	48,875
Less deferred revenue			
Sponsorship	286	3,110	3,396
Other		267	267
Deferred costs, net of revenue	7,650	37,562	45,212

CANADA HARBOUR PLACE CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

5. Shareholder's Equity

The capital stock of the Corporation comprises three shares authorized, issued and fully paid at $1 per share. Contributed capital increased during the year by $56.2 million (1984—$48.1 million) all funding through appropriations under the Department of Transport.

6. Lease agreements

In 1983, the Corporation entered into 99-year agreements with Tokyu Canada Corporation, for the lease of air rights at Canada Place to Tokyu. Under the terms of the agreements, Tokyu agreed to pay the Corporation an up front, non-refundable payment of $15 million for the air rights and $15.556 million for costs related to the construction of facilities to support office space and a hotel to be constructed by Tokyu within the air rights parcel. Closing costs of $.262 million and $.456 million of reimbursable costs resulted in net receipts of $29.838 million under this lease. Tokyu will also pay additional rent for its share of the common area and operating costs.

In 1986, the Corporation entered into a twenty year agreement with Citicom Ltd. to operate the parking facilities at Canada Place. Citicom paid $1 million to the Corporation at the time the agreement was signed and will make monthly payments based on varying percentages of gross parking revenues.

7. Development agreement

The Corporation executed a development agreement with the Vancouver Port Corporation to construct a cruise ship terminal for $22.8 million in the Canada Place project.

8. Sponsorship agreement

The Corporation has entered into an agreement with Canadian National for rights respecting an Imax Theatre at Canada Place. The rights are for the sponsorship of the film "Transitions" and for the theatre to be named the "CN Theatre" for a period of 40 years commencing May 2, 1986. In return for these rights, CN has paid the Corporation $5 million which has been allocated wholly against construction costs.

9. Contractual obligations

At March 31, 1986, the construction and related costs to complete the project including conversion costs are estimated at $52 million of which approximately $11 million has already been committed.

10. Commitment—Trade and Convention Centre

During the year the Government of Canada and the Province of B.C. signed an agreement in principle in which the Province of B.C. will take over and operate the Trade and Convention Centre starting in July 1987. It is expected that the Corporation will negotiate and conclude a detailed agreement with B.C. Place Limited representing the Province of B.C.

Under the signed agreement in principle, the Government of Canada agreed to do the following:

- Complete construction and outfit the Trade and Convention Centre at the Corporation's cost which is estimated to be $15 million.
- Pay $1 million to the Province of B.C. in July 1987.
- Lease to the Province of B.C., at a nominal consideration of $1, space in the Canada Place project for the Trade and Convention Centre including pre-function areas, meeting rooms and retail space for a term of 20 years with renewal options for three successive similar terms.

11. Long-term lease commitments

The Corporation has entered into long-term lease agreements for office space and the Imax projection system. The future minimum lease payments by fiscal year are as follows:

	(in thousands of dollars)
1987	554
1988	740
1989	162
1990	162
1991	162

12. Retirement plan

Because of the term nature of the project, the Corporation has agreed to make annual payments for certain employees to retirement plans of their choice and to provide for a retiring allowance to senior officers. These benefits are equivalent to 8½% of the annual salary for each of these employees and officers.

13. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations.

The Corporation is dependent on the Government of Canada for working capital and to finance expenditures.

All significant related party transactions are disclosed in Notes 3, 5, 7 and 8. Certain components of the Canada Pavilion and increased federal activities in support of Expo '86 that have been provided directly by departments, agencies and Crown corporations are not reflected in these financial statements. The Corporation also enters into transactions with departments, agencies and Crown corporations in the normal course of business.

SUMMARY PAGE

CANADA LANDS COMPANY LIMITED

MANDATE

The Canada Lands Company Limited has the mandate to hold certain leases for a property in London, England and two properties on Indian reserves in Canada. It is also the shareholder in three subsidiary corporations.

BACKGROUND

Formerly the Public Works Lands Company, the corporation's main efforts recently have been concentrated within subsidiaries with operations at Le Vieux-Port de Montréal, Vieux-Port de Québec, and Mirabel, respectively.

CORPORATION DATA

HEAD OFFICE	Sir Charles Tupper Building Confederation Heights Riverside Drive Ottawa, Ontario K1A 0M2
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Stewart McInnes, P.C., M.P.
DEPARTMENT	Public Works
DATE AND MEANS OF INCORPORATION	(March 7, 1956) by letters patent; reorganized under the *Canada Corporations Act*, September 19, 1977. Certificate of Continuance under *Canada Business Corporations Act* July 7, 1981.
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

The data presented relate respectively to the parent corporation (Canada Lands Company Limited) and its three subsidiaries: Canada Lands Company (Mirabel) Limited, Canada Lands Company (Le Vieux-Port de Montréal) Limited and Canada Lands Company (Vieux-Port de Québec) Inc.

	1985-86	1984-85 (restated)	1983-84	1982-83
At the end of the period				
Total Assets				
— parent corporation	nil	nil	nil	nil
— Mirabel corporation	3.2	5.0	4.8	1.8
— Montreal corporation	1.9	5.7	1.8	1.1
— Quebec corporation	2.0	7.3	14.5	2.0
Obligations to the private sector	—	nil	nil	nil
Obligations to Canada, net				
— parent corporation	nil	nil	nil	nil
— Mirabel corporation	1.3	4.3	4.1	0.7
— Montreal corporation	nil	(1.8)	0.1	negl.
— Quebec corporation	1.3	0.3	(1.5)	(0.7)
Equity of Canada	nil	nil	nil	nil
Cash from Canada in the period				
— non-budgetary	nil	nil	nil	nil
— budgetary				
— parent corporation	nil	nil	nil	nil
— Mirabel corporation	8.0	8.1	11.2	9.9
— Montreal corporation	6.0	31.8	12.6	6.3
— Quebec corporation	5.5	27.0	32.5	19.3

CANADA LANDS COMPANY LIMITED

THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 1982 TO 1986
WERE NOT AVAILABLE AT DATE OF PRINTING

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 1

CANADA LANDS COMPANY (MIRABEL) LIMITED

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Canada Lands Company (Mirabel) Limited as at March 31, 1986 and the statement of transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the charter and by-laws of the Corporation, as well as the agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 18, 1986

BALANCE SHEET AS AT MARCH 31, 1986

ASSETS	1986	1985	LIABILITIES	1986	1985
	$	$		$	$
Cash	1,786,323	3,674,379	Accounts payable	645,326	652,640
Accounts receivable	1,386,952	1,337,509	Deposits on sales of properties awaiting approval	1,215,685	84,171
			Due to Minister of Public Works (Note 3)	793,944	1,428,820
			Due to Receiver General for Canada (Note 4)	518,320	2,846,257
				3,173,275	5,011,888
			SHAREHOLDER'S EQUITY		
			Capital stock (Note 5)		
	3,173,275	5,011,888		3,173,275	5,011,888

Approved by the Board:

PIERRE HARDY
Director

RICHARD BERGERON
Director

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 1—*Continued*

CANADA LANDS COMPANY (MIRABEL) LIMITED—*Continued*

STATEMENT OF TRANSACTIONS
CARRIED OUT AS AGENT AND ON BEHALF OF THE
MINISTER OF PUBLIC WORKS
FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Expenditures		
Expenditures incurred for goods received or services rendered		
Property appraisal	2,510,541	716,557
Wages and benefits	2,442,246	3,626,266
Establishment of cadastres	917,903	325,108
Materials and maintenance contracts	841,159	810,202
Professional services	680,012	651,526
General	551,523	436,898
Public utilities	108,333	321,440
Office supplies	96,166	277,424
Rentals	82,674	53,562
	8,230,557	7,218,983
Capital	539,445	408,911
Employment program—Job creation		300,011
Total	8,770,002	7,927,905
Proceeds from other than the direct use of fixed assets		
Interest, related principally to the receipt of parliamentary appropriations in advance of needs	260,232	207,064
Other proceeds		36,229
	260,232	243,293
Net expenditures to be funded (Note 3)	8,509,770	7,684,612
Cumulative net expenditures since April 9, 1981	47,022,189	38,512,419

STATEMENT OF TRANSACTIONS
CARRIED OUT AS AGENT AND ON BEHALF OF THE
MINISTER OF PUBLIC WORKS
FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Proceeds from the direct use of fixed assets		
Rentals	2,688,892	3,545,066
Sales of properties	475,796	5,101,154
Other	183,193	95,390
Total to be remitted (Note 4)	3,347,881	8,741,610
Cumulative direct proceeds since April 9, 1981	29,333,660	25,985,779
Excess of net expenditures over direct proceeds (excess of direct proceeds over net expenditures)		
For the year	5,161,889	(1,056,998)
Cumulative since April 9, 1981	17,688,529	12,526,640

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1986

1. Authority and activities

Canada Lands Company (Mirabel) Limited was incorporated on April 9, 1981 under the Canada Business Corporations Act and is a wholly-owned subsidiary of Canada Lands Company Limited, a Crown corporation named in Part I of Schedule C to the Financial Administration Act.

Effective July 1, 1981, pursuant to an agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works, the Corporation is responsible for administering and developing a part of the peripheral lands of Mirabel in order to ensure a normal living environment for residents of the lands while safeguarding the operations of the Mirabel International Airport. The Corporation fulfills this responsibility in the name and for the account of the Minister of Public Works who continues to hold title to the fixed assets for the benefit of Her Majesty. On May 21, 1982, the Privy Council authorized the sale of certain properties; on February 23, 1984, it authorized the disposition of the remaining properties within the territory under its responsibility. On September 19, 1984, a moratorium suspended the sales programme; the Privy Council authorized the resumption of the sales from June 11, 1985 under revised terms and conditions approved by the Treasury Board.

2. Significant accounting policies

(a) Financial statements presentation

The statements present transactions carried out by the Corporation as agent and on behalf of the Minister of Public Works. All expenditures, net of proceeds from other than the direct use of fixed assets, are reimbursable to the Corporation. Proceeds from the direct use of fixed assets, principally rentals and sales of properties, are payable to the Receiver General for Canada.

Differences between parliamentary appropriations received and net reimbursable expenditures are recorded by the Corporation as due from or due to the Minister of Public Works.

(b) Expenditures of a capital nature

Expenditures of a capital nature represent costs which significantly increase the value or extend the useful lives of properties administered by the Corporation.

(c) Sales of properties

Sales of properties are recognized when title passes to buyers and the Corporation is entitled to receive the amount of the proceeds.

(d) Pension plan

All employees of the Corporation participate in the superannuation plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the plan. The Corporation's contributions, representing its total liability, are recorded on a current basis.

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 1—*Continued*

CANADA LANDS COMPANY (MIRABEL) LIMITED—*Continued*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1986—*Concluded*

3. Due to Minister of Public Works

	1986	1985
	$	$
Balance at beginning of the year	1,428,820	1,036,723
Net expenditures	8,509,770	7,684,612
	7,080,950	6,647,889
Reimbursements	172,106	23,302
	7,253,056	6,671,191
Less: funds drawn from Department of Public Works Vote 35 (Vote 60 in 1985) for Canada Lands Company (Mirabel) Limited	8,047,000	7,800,000
funds drawn from Treasury Board Vote 10 for Employment initiatives program		300,011
	8,047,000	8,100,011
Balance at end of the year	793,944	1,428,820

4. Due to Receiver General for Canada

	1986	1985
	$	$
Balance at beginning of the year	2,846,257	2,764,395
Direct proceeds	3,347,881	8,741,610
	6,194,138	11,506,005
Remittances to the Consolidated Revenue Fund	5,675,818	8,659,748
Balance at end of the year	518,320	2,846,257

5. Capital stock

The Corporation is authorized to issue a single share, to be held in trust for Her Majesty in Right of Canada, which may not be transferred without the consent of the Governor in Council. The authorized share has been issued in consideration of services rendered.

6. Contingency

Legal action has been instituted against the Corporation, the Attorney General of Canada, the Minister of Transport and the Minister of Public Works by some of the original Mirabel property owners who are asking to have the 1969 expropriation declared invalid. In this context, a number of lessees have ceased to remit their rent to the Corporation. On March 27, 1985, a protocol of understanding was entered into with representatives of the original property owners whereby the parties undertake to discontinue all litigation actions between them. This protocol was approved in principle by the Privy Council on June 11, 1985.

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 1—*Continued*

CANADA LANDS COMPANY (MIRABEL) LIMITED—*Continued*

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Canada Lands Company (Mirabel) Limited as at March 31, 1985 and the statement of transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and regulations, the charter and by-laws of the Corporation, as well as the agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 14, 1985

BALANCE SHEET AS AT MARCH 31, 1985

ASSETS	1985	1984	LIABILITIES	1985	1984
	$	$		$	$
Cash	3,674,379	3,918,258	Accounts payable	652,640	679,307
Accounts receivable	1,337,509	876,607	Deposits on sales of properties awaiting approval	84,171	314,440
			Due to Minister of Public Works (Note 3)	1,428,820	1,036,723
			Due to Receiver General for Canada (Note 4)	2,846,257	2,764,395
				5,011,888	4,794,865
			SHAREHOLDER'S EQUITY		
			Capital stock (Note 5)		
	5,011,888	4,794,865		5,011,888	4,794,865

Approved by the Board:

RICHARD BERGERON
Director

PIERRE HARDY
Director

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 1—*Continued*

CANADA LANDS COMPANY (MIRABEL) LIMITED—*Continued*

STATEMENT OF TRANSACTIONS
CARRIED OUT AS AGENT AND ON BEHALF OF THE MINISTER OF PUBLIC WORKS
FOR THE YEAR ENDED MARCH 31, 1985

	1985	1984
	$	$
Expenditures		
Expenditures incurred for goods received or services rendered		
Wages and benefits	3,626,266	3,376,723
Materials and maintenance contracts	810,202	1,339,446
Property appraisal	716,557	293,501
Professional services	651,526	773,158
General	436,898	321,517
Establishment of cadastres	325,108	183,014
Public utilities	321,440	330,659
Office supplies	277,424	404,895
Rentals	53,562	47,143
	7,218,983	7,070,056
Capital	408,911	1,395,027
Employment program—Job creation	300,011	2,252,805
Total	7,927,905	10,717,888
Proceeds from other than the direct use of fixed assets		
Interest, related principally to the receipt of parliamentary appropriations in advance of needs	207,064	421,700
Other proceeds	36,229	85,222
	243,293	506,922
Net expenditures to be funded (Note 3)	7,684,612	10,210,966
Cumulative net expenditures since April 9, 1981	38,512,419	30,827,807

STATEMENT OF TRANSACTIONS
CARRIED OUT AS AGENT AND ON BEHALF OF THE MINISTER OF PUBLIC WORKS
FOR THE YEAR ENDED MARCH 31, 1985

	1985	1984
	$	$
Proceeds from the direct use of fixed assets		
Rentals	3,545,066	3,636,782
Sales of properties	5,101,154	7,644,006
Other	95,390	
Total to be remitted (Note 4)	8,741,610	11,280,788
Cumulative direct proceeds since April 9, 1981	25,985,779	17,244,169
Excess of net expenditures over direct proceeds (excess of direct proceeds over net expenditures)		
For the year	(1,056,998)	(1,069,822)
Cumulative since April 9, 1981	12,526,640	13,583,638

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1985

1. Authority and activities

Canada Lands Company (Mirabel) Limited was incorporated on April 9, 1981 under the Canada Business Corporations Act and is a wholly-owned subsidiary of Canada Lands Company Limited, a Crown corporation named in Part I of Schedule C to the Financial Administration Act.

Effective July 1, 1981, pursuant to an agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works, the Corporation is responsible for administering and developing a part of the peripheral lands of Mirabel in order to ensure a normal living environment for residents of the lands while safeguarding the operations of the Mirabel International Airport. The Corporation fulfills this responsibility in the name and for the account of the Minister of Public Works who continues to hold title to the fixed assets for the benefit of Her Majesty. On May 21, 1982, the Privy Council authorized the sale of certain properties; on February 23, 1984, it authorized the disposition of the remaining properties within the territory under its responsibility. On September 19, 1984, a moratorium suspended the sales programme; the Privy Council authorized the resumption of the sales from June 11, 1985 under revised terms and conditions approved by the Treasury Board.

2. Significant accounting policies

(a) Financial statements presentation

The statements present transactions carried out by the Corporation as agent and on behalf of the Minister of Public Works. All expenditures, net of proceeds from other than the direct use of fixed assets, are reimbursable to the Corporation. Proceeds from the direct use of fixed assets, principally rentals and sales of properties, are payable to the Receiver General for Canada.

Differences between parliamentary appropriations received and net reimbursable expenditures are recorded by the Corporation as due from or due to the Minister of Public Works.

(b) Expenditures of a capital nature

Expenditures of a capital nature represent costs which significantly increase the value or extend the useful lives of properties administered by the Corporation.

(c) Sales of properties

Sales of properties are recognized when title passes to buyers and the Corporation is entitled to receive the amount of the proceeds.

(d) Pension plan

All employees of the Corporation participate in the superannuation plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the plan. The Corporation's contributions, representing its total liability, are recorded on a current basis.

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 1—*Concluded*

CANADA LANDS COMPANY (MIRABEL) LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS AS AT MARCH 31, 1985—*Concluded*

3. Due to Minister of Public Works

	1985	1984
	$	$
Balance receivable (payable) at beginning of the year	(1,036,723)	486,615
Adjustment for prior years' proceeds from other than the direct use of fixed assets		506,499
	(1,036,723)	(19,884)
Net expenditures	7,684,612	10,210,966
	6,647,889	10,191,082
Reimbursements	23,302	
	6,671,191	10,191,082
Less: funds drawn from Department of Public Works Vote 60 (Vote 45 in 1984) for Canada Lands Company (Mirabel) Limited	7,800,000	8,975,000
funds drawn from Treasury Board Vote 10 for Employment initiatives program	300,011	2,252,805
	8,100,011	11,227,805
Balance payable at end of the year	1,428,820	1,036,723

4. Due to Receiver General for Canada

	1985	1984
	$	$
Balance at beginning of the year	2,764,395	918,149
Adjustment for prior years' proceeds from other than the direct use of fixed assets		506,499
	2,764,395	411,650
Direct proceeds	8,741,610	11,280,788
	11,506,005	11,692,438
Remittances to the Consolidated Revenue Fund	8,659,748	8,928,043
Balance at end of the year	2,846,257	2,764,395

5. Capital stock

The Corporation is authorized to issue a single share, to be held in trust for Her Majesty in Right of Canada, which may not be transferred without the consent of the Governor in Council. The authorized share has been issued in consideration of services rendered.

6. Contingency

Legal action has been instituted against the Corporation, the Attorney General of Canada, the Minister of Transport and the Minister of Public Works by some of the original Mirabel property owners who are asking to have the 1969 expropriation declared invalid. In this context, a number of lessees have ceased to remit their rent to the Corporation. On March 27, 1985, a protocol of understanding was entered into with representatives of the original property owners whereby the parties undertake to discontinue all litigation actions between them. This protocol was approved in principle by the Privy Council on June 11, 1985.

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 2

CANADA LANDS COMPANY (LE VIEUX-PORT DE MONTRÉAL) LIMITED

AUDITOR'S REPORT

THE HONOURABLE ROCH LA SALLE, P.C., M.P.
MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Canada Lands Company (Le Vieux-Port de Montréal) Limited as at March 31, 1986 and the statement of transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the charter and by-laws of the Corporation, as well as the agreement between the Corporation and Her Majesty in right of Canada represented by the Minister of Public Works.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 23, 1986

BALANCE SHEET AS AT MARCH 31, 1986

ASSETS	1986	1985
	$	$
Cash and temporary investments, at cost (approximates market value)	1,544,657	3,858,960
Accounts receivable	44,000	107,406
Due from Minister of Public Works (Note 3)		1,451,420
Due from Receiver General for Canada (Note 4)	288,795	284,343
Prepaid expenses	15,072	8,218
	1,892,524	5,710,347

LIABILITIES	1986	1985
	$	$
Accounts payable	1,607,019	5,710,347
Due to Minister of Public Works (Note 3)	285,505	
	1,892,524	5,710,347
SHAREHOLDER'S EQUITY		
Capital stock (Note 5)	-	
	1,892,524	5,710,347

Approved by the Board:

ROGER BEAULIEU
Director

BENOÎT LEMAY
Director

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 2—*Continued*

CANADA LANDS COMPANY (LE VIEUX-PORT DE MONTRÉAL) LIMITED—*Continued*

STATEMENT OF TRANSACTIONS CARRIED OUT AS AGENT AND ON BEHALF OF THE MINISTER OF PUBLIC WORKS FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Expenditures		
Operating		
Permanent personnel	827,769	805,856
Maintenance of property	737,856	493,777
Administration	393,049	464,134
Communications	359,156	692,595
Professional services	201,996	77,804
Bad debt	130,223	
	2,650,049	2,534,166
Capital	4,404,754	29,066,216
Communications and culture program		262,291
Total	7,054,803	31,862,673
Proceeds from other than the direct use of fixed assets		
Interest, related principally to the receipt of parliamentary appropriations in advance of needs	310,524	508,949
Concessions	74,957	75,155
Other	279	65,256
	385,760	649,360
Net expenditures to be funded (Note 3)	6,669,043	31,213,313
Cumulative net expenditures since November 26, 1981	57,234,895	50,565,852
Proceeds from the direct use of fixed assets		
Rentals to be remitted (Note 4)	109,142	142,220
Cumulative direct proceeds since November 26, 1981	428,161	319,019
Excess of net expenditures over direct proceeds		
For the year	6,559,901	31,071,093
Cumulative since November 26, 1981	56,806,734	50,246,833

NOTES TO FINANCIAL STATEMENTS AS AT MARCH 31, 1986

1. Authority and activities

Canada Lands Company (Le Vieux-Port de Montréal) Limited was incorporated on November 26, 1981 under the Canada Business Corporations Act and is a wholly-owned subsidiary of Canada Lands Company Limited, a Crown corporation named in Part I of Schedule C to the Financial Administration Act.

Effective February 1, 1982, pursuant to an agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works, the Corporation is responsible for developing and for promoting the development of the lands of Le Vieux-Port de Montréal, and for administering, managing and maintaining the property of Her Majesty located therein. The Corporation fulfills this responsibility in the name and for the account of the Minister of Public Works who continues to hold title to the fixed assets for the benefit of Her Majesty.

2. Significant accounting policies

(a) Financial statement presentation

The statements present transactions carried out by the Corporation as agent and on behalf of the Minister of Public Works. All expenditures, net of proceeds from other than the direct use of fixed assets, are reimbursable to the Corporation. Proceeds from the direct use of fixed assets, principally rental revenues, are payable to the Receiver General for Canada.

Differences between parliamentary appropriations received and net reimbursable expenditures are recorded by the Corporation as due from or due to the Minister of Public Works.

(b) Expenditures of a capital nature

Expenditures of a capital nature represent costs which significantly increase the value or extend the useful lives of properties administered by the Corporation. They also include costs of demolishing structures.

(c) Employee termination benefits

On termination of employment, employees of the Corporation are entitled to certain benefits provided for under the salary administration policy of the Corporation. The cost of these benefits is recorded in the year in which they are earned by the employees. The estimated liability resulting from this policy is included in accounts payable.

(d) Retirement savings plan

The Corporation has established a group retirement savings plan under which a single trust was established with a private sector organization in order to accumulate contributions to provide a retirement income for the employees through individually registered retirement savings plans. All contributions are paid by the employees, the Corporation acting solely as an agent without incurring any liability.

3. Due from (due to) Minister of Public Works

	1986	1985
	$	$
Balance due from (due to) at beginning of the year	1,451,420	(16,764)
Adjustment for prior years' proceeds from other than the direct use of fixed assets		(385,838)
		(402,602)
Net expenditures	6,669,043	31,213,313
	8,120,463	30,810,711
Less:		
Funds drawn from Department of Public Works for Canada Lands Company (Le Vieux-Port de Montréal) Limited		
Vote 70 in 1985	2,512,000	29,097,000
Vote 45 in 1986	6,029,350	
Funds drawn from Department of Communications Vote 10, for communications and culture program		262,291
Reimbursements	(135,382)	
	8,405,968	29,359,291
Balance due from (due to) at end of the year	(285,505)	1,451,420

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 2—*Concluded*

CANADA LANDS COMPANY (LE VIEUX-PORT DE MONTRÉAL) LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1986—*Concluded*

4. Due from (due to) Receiver General for Canada

	1986	1985
	$	$
Balance due from (due to) at beginning of the year ...	284,343	(74,612)
Adjustment for prior years' proceeds from other than the direct use of fixed assets		385,838
		311,226
Direct proceeds	109,142	142,220
	175,201	169,006
Remittances to the Consolidated Revenue Fund	113,594	115,337
Balance due from at end of the year	288,795	284,343

5. Capital stock

The Corporation is authorized to issue a single share, to be held in trust for Her Majesty in Right of Canada, which may not be transferred without the consent of the Governor in Council. The authorized share has been issued in consideration of services rendered.

6. Public consultation

Expenditures incurred during the year for the public consultation on the development on the lands amount to $527,000 of which $407,000 were charged to capital and $120,000 to operating.

7. Comparative figures

The 1985 figures have been reclassified in order to conform with this year's presentation.

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 3

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1986
WERE NOT AVAILABLE AT DATE OF PRINTING

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 3—*Continued*

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.—*Continued*

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Canada Lands Company (Vieux-Port de Québec) inc. as at March 31, 1985 and 1984 and the statements of operations, deficit, and retained earnings and of transactions for the years ended March 31, 1985 and 1984. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1985 and 1984 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

I further report that, in respect of the year ended March 31, 1984, in my opinion, proper books of account have been kept by the Corporation, the financial statements are in agreement therewith and the transactions that have come under my notice have been within its statutory powers. Further, in respect of the year ended March 31, 1985, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statement have, in all significant respects, been in accordance with the Financial Administration Act and regulations, the charter and by-laws of the Corporation and the agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works.

I wish to bring to your attention certain aspects of the Corporation's financial participation in the festive event which took place in Quebec City during the summer of 1984 in order to commemorate the arrival of Jacques Cartier in Canada, as described in Note 8 to the financial statements:

— the submission made to the Treasury Board for the repurchase of assets of the corporation Quebec 1534-1984 or to reimburse it for certain immovable assets did not bring out the existence of a protocol of general understanding signed with that corporation, which provided for the transfer of assets to the Corporation without any compensation becoming payable. Further, the submission did not specify the basis for setting the value of the assets to be thus acquired. In my opinion, they constituted essential elements for arriving at a decision based on all pertinent facts and they were not provided to the Treasury Board.

— the Corporation has contracted to remit the sum of $1,977,469, for the repurchase of assets of the corporation Quebec 1534-1984 and to reimburse it for certain immovable assets, on the basis of bundles of papers constituted principally of purchase orders rather than invoices, and without considering their value to the Corporation. A representative of the Corporation has estimated the value to the Corporation of these assets at a maximum of $600,000. I conclude that the Corporation has paid excessive prices for assets of questionable value which, under the protocol of general understanding, would have reverted back in any event to the Corporation at no cost;

— without being bound to do so and without the Treasury Board's approval, the Corporation has discharged debts amounting to $429,876 of a third party, namely the corporation Quebec 1534-1984.

Consequently, in my opinion, the Corporation has not managed its financial resources, in respect of the foregoing in this paragraph, with due regard for economy.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
August 27, 1985

BALANCE SHEETS AS AT MARCH 31, 1985 AND 1984

ASSETS	1985	1984
	$	$
Cash and temporary investments	2,414,460	8,579,153
Accounts receivable (Note 3)	1,085,825	1,221,629
Due from Minister of Public Works (Note 4)		242,329
Due from Receiver General for Canada (Note 5)	67,540	704,354
Fixed assets (Note 6)	3,693,450	3,782,575
	7,261,275	14,530,040

LIABILITIES	1985	1984
	$	$
Accounts payable	2,995,822	10,740,791
Due to Minister of Public Works (Note 4)	460,536	
	3,456,358	10,740,791
SHAREHOLDER'S EQUITY		
Capital stock (Note 7)		
Contributed surplus	3,790,000	3,790,000
Retained earnings (Deficit)	14,917	(751)
	7,261,275	14,530,040

Approved by the Board:

ROBERT LABBÉ
Director

COLETTE SAVARD
Director

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 3—*Continued*

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.—*Continued*

STATEMENTS OF OPERATIONS, DEFICIT AND RETAINED EARNINGS FOR THE YEARS ENDED MARCH 31, 1985 AND 1984 (NOTE 1)

	1985	1984
	$	$
Rentals	408,335	31,708
Depreciation	89,125	7,425
Repairs and maintenance	45,244	4,285
Heating and services	145,616	11,595
Grants in lieu of taxes	112,682	9,154
	392,667	32,459
Net income (Loss)	15,668	(751)
Deficit at beginning of the year	751	
Retained earnings (Deficit) at end of the year	14,917	(751)

STATEMENTS OF TRANSACTIONS CARRIED OUT AS AGENT AND ON BEHALF OF THE MINISTER OF PUBLIC WORKS FOR THE YEARS ENDED MARCH 31, 1985 AND 1984

	1985	1984
	$	$
Expenditures		
Expenditures incurred for goods received or services rendered		
Operating		
Public affairs and animation	1,188,875	1,113,160
Administration, finance and property	2,686,504	771,534
Management's office and executive vice-president	541,085	501,701
Planning and development	296,946	355,661
	4,713,410	2,742,056
Capital	18,132,436	29,486,026
Employment program—Job creation	19,584	685,350
Quebec 1534-1984 (Note 8)	3,407,345	
Total	26,272,775	32,913,432
Proceeds from other than the direct use of fixed assets		
Interest, related principally to the receipt of parliamentary appropriations in advance of needs	258,720	371,644
Other proceeds	320	99,806
	259,040	471,450
Net expenditures to be funded (Note 4)	26,013,735	32,441,982
Cumulative net expenditures since April 9, 1981	89,135,484	63,121,749
Proceeds from the direct use of fixed assets (Note 5)		
Rentals	636,814	163,897
Cumulative direct proceeds since April 9, 1981	1,021,051	384,237
Excess of net expenditures over direct proceeds		
For the year	25,376,921	32,278,085
Cumulative since April 9, 1981	88,114,433	62,737,512

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 1985 AND 1984

1. Authority and activities

Canada Lands Company (Vieux-Port de Québec) Inc. was incorporated on April 9, 1981 under the Canada Business Corporations Act and is a wholly-owned subsidiary of Canada Lands Company Limited, a Crown corporation named in Part I of Schedule C to the Financial Administration Act.

Effective August 1, 1981, pursuant to an agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works, the Corporation is responsible for the implementation of a general development plan for the lands of the Vieux-Port de Québec under its jurisdiction and for administering, managing, promoting and operating such lands and their developments. The Corporation fulfills this responsibility in the name and for the account of the Minister of Public Works who continues to hold title to the fixed assets for the benefit of Her Majesty.

Effective February 9, 1984, the Corporation is responsible for its own account for the management, charge and direction of a parcel of land together with the improvements thereon which has been transferred to it, subject to certain limiting conditions, by order of the Governor General in Council.

2. Significant accounting policies

(a) Financial statements presentation

The Statement of Operations presents the transactions carried out by the Corporation for the management, charge and direction of the assets held for the benefit of Her Majesty.

The Statement of Transactions presents transactions carried out by the Corporation as agent and on behalf of the Minister of Public Works. All expenditures, net of proceeds from other than the direct use of fixed assets, are reimbursable to the Corporation. Proceeds from the direct use of fixed assets, principally rentals, are payable to the Receiver General for Canada.

Differences between parliamentary appropriations received and net reimbursable expenditures are recorded by the Corporation as due from or due to the Minister of Public Works.

(b) Expenditures of a capital nature

Expenditures of a capital nature represent costs which significantly increase the value or extend the useful lives of properties administered or owned by the Corporation. They also include costs of acquiring and demolishing structures.

(c) Fixed assets and depreciation

Fixed assets transferred from Canada are recorded at their current value at the date of transfer, with the offset being credited to contributed surplus. Other fixed assets belonging to the Corporation are recorded at cost. Depreciation is calculated under the straight-line method at rates based on the useful lives of the assets, currently estimated at forty years for the main structure of the building.

3. Accounts receivable

The accounts receivable include the following amounts:

	1985	1984
	$	$
Public services organization	467,816	467,227
Department of Public Works	54,824	500,258
Canada Ports Corporation	175,000	175,000
Others	388,185	79,144
	1,085,825	1,221,629

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 3—*Continued*

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1985 AND 1984—*Continued*

The amount receivable from the public services organization is for specific work carried out by the Corporation. The related cost is recoverable upon the signing of a protocol by the Corporation, the Canada Ports Corporation and the organization. The protocol, not yet signed, provides for the transfer of certain privileges from the Corporation and the Canada Ports Corporation. The work is completed for all practical purposes. The Corporation has not yet decided to transfer the privileges requested by the organization. It is possible that the Corporation may not recover the related cost and would have to account for it as a capital expenditure.

The amount receivable from the Department of Public Works is comprised of the following:

	1985	1984
	$	$
Cost of fitting-up leased premises	266,206	567,250
Rentals		31,708
	266,206	598,958
Less: claim for late delivery of the leased premises	89,546	89,546
grants in lieu of taxes paid by the Department for the account of the Corporation	121,836	9,154
	211,382	98,700
	54,824	500,258

The amount receivable from the Canada Ports Corporation derives from a protocol providing for the reimbursement to the Corporation of expenditures it incurred for work carried out inside the strip of land upon which the Canada Ports Corporation has operational jurisdiction. This protocol provides that the reimbursement will be made out of a global amount approved by the Treasury Board to the Canada Ports Corporation, if there are funds remaining available. As at March 31, 1985, the Corporation had claimed for the reimbursement of expenditures totalling $650,000, of which $475,000 had been received to that date. Not being able to determine the funds remaining available to the Canada Ports Corporation, the Corporation cannot establish the additional amount it might expect to receive, or any amount up to the $475,000 already received it might have to refund. Any difference established at the time of the final settlement of this transaction will be accounted for as a capital expenditure.

4. Due from (Due to) Minister of Public Works

	1985	1984
	$	$
Balance receivable at beginning of the year	242,329	693,137
Adjustment for prior years' proceeds from other than the direct use of fixed assets		358,645
	242,329	334,492
Net expenditures	26,013,735	32,441,982
	26,256,064	32,776,474
Less: funds drawn from Votes 15 and 65 in 1985 and 50 in 1984 of the Department of Public Works Canada Lands Company (Vieux-Port de Québec) inc.	26,516,600	31,844,000
funds drawn from Vote 10 of the Treasury Board Employment Initiatives Program		690,145
funds drawn from Vote 10 of the Department of Communications Special cultural initiatives program	200,000	
	26,716,600	32,534,145
Balance receivable (payable) at end of the year	(460,536)	242,329

5. Due from Receiver General for Canada

	1985	1984
	$	$
Balance receivable (payable) at beginning of the year	704,354	(32,704)
Adjustment for prior years' proceeds from other than the direct use of fixed assets		358,645
	704,354	325,941
Direct proceeds	636,814	163,897
	67,540	162,044
Remittances to the Consolidated Revenue Fund		542,310
Balance receivable at end of the year	67,540	704,354

6. Fixed assets

Details of fixed assets are as follows:

	1985	1984
	$	$
Building		
Book value	3,565,000	3,565,000
Accumulated depreciation	96,550	7,425
	3,468,450	3,557,575
Land	225,000	225,000
	3,693,450	3,782,575

The transfer of fixed assets from Canada is subject to the limiting conditions that the property is to be used for the purpose of leasing office space principally to the Department of Public Works and, at the end of the Corporation's mandate to redevelop the Old Port of Quebec, that the property revert to the Department of Public Works.

7. Capital stock

The Corporation is authorized to issue a single share, to be held in trust for Her Majesty in Right of Canada and which may not be transferred without the consent of the Governor in Council. The authorized share has been issued in consideration of services rendered.

8. Quebec 1534-1984

For the staging of the festive event of a national and international dimension to commemorate the arrival of Jacques Cartier in Canada, the non-profit corporation Quebec 1534-1984 and the Corporation signed a protocol of general understanding determining the rights and obligations of each party for the staging of the event and for the use of the site and of the equipment under the jurisdiction of the Corporation. As compensation for the right to use the site granted by the Corporation, it was expressly agreed therein that certain infrastructures, temporary installations and equipment put into place by Quebec 1534-1984 would remain the property of the Corporation at the term of the agreement.

When the poor financial position of Quebec 1534-1984 became known publicly, a submission was made to the Treasury Board to secure approval for the Corporation to repurchase assets of that corporation and to reimburse it for certain immovable assets, located on the site, for a total value of $2.5 million and to contribute $1 million for the financing of a portion of the regular programming and for new initiatives in animation.

On August 1, 1984, the Treasury Board authorized the Corporation to remit to Quebec 1534-1984 a maximum amount of $3.5 million for certain goods and property as well as for operating expenses.

As at August 22, 1984, the Corporation contracted to remit the sum of $1,977,469 constituting the original cost of the assets thus

CANADA LANDS COMPANY LIMITED—*Concluded*

APPENDIX 3—*Concluded*

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1985 AND 1984—*Concluded*

acquired. On August 23, 1984, it paid $1 million as its share of the cost of socio-cultural and animation activities presented on the site by Quebec 1534-1984.

Further, it has discharged debts of Quebec 1534-1984 amounting to $429,876.

9. Contingencies

As mentioned in Note 8, the Corporation and the corporation Quebec 1534-1984 signed a protocol of general understanding determining the rights and obligations of each party for the staging of the festive event and for the use of the site and of the equipment under the jurisdiction of the Corporation. Under the terms of the agreement, the Corporation has not granted the right to use the totality of the site, reserving for itself some premises that it might rent for commercial purposes. Leases were signed but, due to poor attendance, several were modified, cancelled or abandoned. The Corporation has received claims arising from those leases, for a total in excess of $2.5 million, and more may yet be received. Management is of the opinion that these claims will not result in any significant financial responsibility for the Corporation.

SUMMARY PAGE

CANADA MORTGAGE AND HOUSING CORPORATION

MANDATE

To promote the construction of new houses, the repair and modernization of existing houses and the improvement of housing and living conditions.

BACKGROUND

Established in 1946, the Corporation acts as the government's agent in the provision of grants, contributions and subsidies for the advancement of housing and community development. It conducts research and provides policy advice to government; it administers the Mortgage Insurance Fund, the prime purpose of which is to ensure an adequate supply of mortgage funds for housing, and it lends to groups and individuals for housing purposes and invests in housing-related projects.

CORPORATION DATA

HEAD OFFICE	682 Montreal Road Ottawa, Ontario K1A 0P7
STATUS	—Schedule C, Part I —an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Stewart McInnes, P.C., M.P.
DEPARTMENT	Public Works
DATE AND MEANS OF INCORPORATION	*Central Mortgage and Housing Corporation Act*, 1946 (R.S.C. 1970, C. C-16).
CHIEF EXECUTIVE OFFICER	George D. Anderson
CHAIRMAN	Robert E. Jarvis, Q.C.
AUDITOR	Deloitte Haskins & Sells

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	1984 (restated)	1983	1982
At the end of the year				
Total Assets	10,051	10,277	10,383	10,684
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	9,802	9,990	10,212	10,192
Equity of Canada	50	50	50	50
Cash from Canada in the year				
—budgetary	1,656	1,728	1,890	1,454
—non-budgetary	293	374	424	431

CANADA MORTGAGE AND HOUSING CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Management of the Corporation is responsible for establishing and maintaining a system of books, records, internal controls and management practices to provide reasonable assurance that: reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation, regulations and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements. The accompanying financial statements of the Corporation as at December 31, 1985 were prepared by management in accordance with the accounting principles, consistently applied, as described in the notes to the financial statements. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee which includes a majority of members who are not officers of the Corporation. The Committee meets from time to time with management, internal audit staff and the independent external auditor to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

The financial statements have been examined by the auditor, Paul-André Michaud, C.A. of the firm Samson Bélair, and his report offers an independent opinion on the financial statements to the Minister Responsible for Canada Mortgage and Housing Corporation.

R.J. Boivin
Acting President and Chief Executive Officer

E.A. Flichel
Acting Senior Vice-President and Vice-President
Finance and Management Information Systems

Ottawa, Canada
February 19, 1986

AUDITOR'S REPORT

TO THE HONOURABLE BILL McKNIGHT, P.C., M.P.
MINISTER RESPONSIBLE FOR
CANADA MORTGAGE AND HOUSING CORPORATION

I have examined the balance sheets of Canada Mortgage and Housing Corporation: Corporate Account, Mortgage Insurance Fund, Home Improvement Loan Insurance Fund and Rental Guarantee Fund as at December 31, 1985, and the related statements of operations and reserve fund, operations and deficit or surplus, changes in financial position and Minister's Account for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985, and the results of its operations, changes in its financial position and expenditures for and recoveries from the Minister for the year then ended in accordance with the accounting principles described in Note 1 to these financial statements applied on a basis consistent with that of the preceding year.

I further report that, in my opinion, the transactions that have come under my notice have been, in all significant respects, within the powers of the Corporation.

Paul-André Michaud, C.A.
of the firm Samson Bélair

Ottawa, Canada
February 19, 1986

CORPORATE ACCOUNT

BALANCE SHEET AS AT DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984
Loans and investments—Schedule I		
Market housing	2,083,645	2,212,710
Social housing	6,284,407	6,318,867
Rehabilitation and conservation	155,257	160,898
Community services	1,470,217	1,528,511
	9,993,526	10,220,986
Accounts Receivable		
The Minister	13,188	21,818
Other	17,455	5,448
	30,643	27,266
Deferred Income Taxes	7,199	8,975
Business Premises, Office Furniture and Equipment, at cost	35,939	32,533
Accumulated depreciation	21,916	19,725
	14,023	12,808
Other Assets	5,699	6,941
	10,051,090	10,276,976

LIABILITIES	1985	1984
Borrowings from the Government of Canada	9,761,059	9,944,807
Cheques Issued in Excess of Funds on Deposit	106,532	105,291
Accounts Payable and Accrued Liabilities		
The Receiver General for Canada	40,853	45,444
Funds administered	886	1,760
Other	49,172	82,144
	90,911	129,348
Unfunded Pension Fund Liability	4,901	7,592
Deferred Profits	37,687	39,938
	10,001,090	10,226,976
CAPITAL AND RESERVE FUND		
Capital		
Authorized and fully paid by the Government of Canada	25,000	25,000
Reserve Fund	25,000	25,000
	50,000	50,000
	10,051,090	10,276,976

See accompanying notes.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

CORPORATE ACCOUNT

STATEMENT OF OPERATIONS AND RESERVE FUND FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Market Housing		
Interest earned	202,512	214,290
Gain on disposal of real estate	14,242	1,151
	216,754	215,441
Interest expense	176,053	182,742
	40,701	32,699
Social Housing		
Interest earned	557,507	519,597
Gain on disposal of real estate	463	560
	557,970	520,157
Interest expense	526,285	481,717
	31,685	38,440
Rehabilitation and Conservation		
Interest earned	18,430	18,472
Interest expense	16,653	16,291
	1,777	2,181
Community Services		
Interest earned	129,049	132,071
Gain on disposal of land assembly projects	12,172	9,192
Gain (Loss) on disposal of real estate	(1,380)	409
	139,841	141,672
Interest expense	118,909	125,847
	20,932	15,825
Other Interest Income	11,511	14,502
Margin on Financing Operations	106,606	103,647
Services to Others	13,023	17,525
	119,629	121,172
Administrative Expenses	44,560	47,676
Income before Income Taxes and Extraordinary Item	75,069	73,496
Income Taxes—Current	34,042	32,909
—Deferred	1,776	933
	35,818	33,842
Income before extraordinary Item	39,251	39,654
Extraordinary Item	5,356	
Net Income	33,895	39,654
Reserve Fund, beginning of year	25,000	25,000
	58,895	64,654
Transferred to the Receiver General for Canada	33,895	39,654
Reserve Fund, end of year	25,000	25,000

See accompanying notes.

CORPORATE ACCOUNT

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Cash Generated by Operations		
Income before income taxes and extraordinary item	75,069	73,496
Add (Deduct): net change in accrued interest	(9,996)	4,767
depreciation	2,190	1,870
	67,263	80,133
Loans and investments repayments	587,885	563,170
Borrowings from the Government of Canada	293,000	374,000
Decrease in accounts receivable from the Minister	8,630	27,274
Decrease in accounts receivable from Funds administered		8,093
Other		27,658
	956,778	1,080,328
Cash Applied to Operations		
Loans and investments additions	351,355	525,708
Repayment of borrowings from the Government of Canada	478,074	592,800
Reduction of unfunded pension fund liability	2,691	3,662
Decrease in accounts payable to Funds administered	874	
Special pension fund contribution	10,135	
Other	47,028	
Paid to Receiver General for Canada		
—Federal income taxes	28,086	32,085
—Excess in reserve fund	39,654	47,008
—Other	122	146
	958,019	1,201,409
Decrease in Cash and Short-Term Deposits	(1,241)	(121,081)

See accompanying notes.

FINANCIAL STATEMENTS DECEMBER 31, 1985

Canada Mortgage and Housing Corporation was incorporated as a Crown Corporation by an Act of Parliament on January 1, 1946. Its activities are regulated by the National Housing Act, the Canada Mortgage and Housing Corporation Act and, in certain respects, the Financial Administration Act, and include:

Corporate Account

Financing housing and community improvement through the making of loans and investments under specific conditions at interest rates normally at market rates which are generally higher than the rates it pays on funds borrowed from the Government of Canada.

Minister's Account

Making certain payments or incurring expenses in the process of delivering housing programs on behalf of the Government of Canada. These payments and expenses include grants, contributions, subsidies, loan forgiveness, losses on real estate, losses under federal-provincial agreements, interest rate losses, research and development, and specified administrative costs. The funding for these activities is provided for in Main and Supplementary Estimates which are tabled in Parliament. Parliamentary approval is by way of Appropriation Acts together with Statutory authorities which authorize the responsible Minister to reimburse the Corporation for the specified payments and expenses for the fiscal year concerned.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

Insurance and Guarantee Funds

Administering certain Insurance and Guarantee Funds on behalf of the Government of Canada. The Mortgage Insurance Fund is the chief instrument for establishing a framework of confidence for mortgage lending by private institutions. This instrument facilitates an adequate supply of mortgage funds by reducing the risk to lenders and encouraging the secondary market trading of mortgages, and thereby increasing the access to housing by Canadians.

CORPORATE ACCOUNT

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1985

1. Significant Accounting Policies

In the Corporate Account, the Corporation follows generally accepted accounting policies or, in certain cases, accounting policies appropriate to the Corporation's activities and governing legislation. The financial statements of the Mortgage Insurance Fund and the Other Insurance and Guarantee Funds are not consolidated with these financial statements. The principal accounting policies followed by the Corporation are:

(a) Loans

Loans are capitalized as funds are advanced. Where loans contain forgiveness clauses, such forgiveness is recorded and recovered from the Minister when the loans are advanced. Loans under certain programs give rise to interest rate losses which are recoverable from the Minister. No provisions are made for possible losses on loans. Losses on insured loans are recoverable from the Mortgage Insurance Fund while property acquired upon default of uninsured loans is subject to loss recovery as described under Real Estate. Other losses on uninsured loans are recoverable from the Minister.

(b) Federal-Provincial Agreements

Investments made under agreements with the provinces and territories to encourage development of rental housing, land assembly, co-operative housing and rural and native housing are considered joint ventures. The underlying assets include agreements for sale, mortgages and real estate.
The Corporation has a seventy-five percent share in the joint ventures which is accounted for on the equity method. Where the province or territory is responsible for the administration of projects, the Corporation relies on financial information provided by the province or territory.
Gains on the sales of land assembly projects are recorded in the Corporate Account and are recognized as income as payments are received. Losses incurred on federal-provincial investments are recoverable from the Minister.

(c) Real Estate

Real estate includes vacant land and properties constructed by the Corporation, acquired from the Government of Canada at no cost, and acquired through default on uninsured loans. All real estate is recorded at cost which includes acquisition costs and any modernization and improvement costs. Holding costs on vacant land and properties constructed by the Corporation are capitalized to appraised value after which they are expensed in the Corporate Account. Holding costs on properties acquired from the Government of Canada at no cost, or acquired through default on uninsured loans, are capitalized.
All net operating losses on real estate are recovered from the Minister. Net gains and losses on the disposal of vacant land and properties constructed by the Corporation are recorded in the Corporate Account. Net gains and losses on the disposal of properties acquired from the Government of Canada and properties acquired through default are paid to or recovered from the Minister. These gains on the disposal of properties are recognized as income or returned to the Minister as payments are received.

(d) Depreciation

Depreciation of real estate is recorded on a straight line basis over terms established for the repayment of the related borrowings.
Depreciation on business premises, office furniture and equipment is recorded on a diminishing balance basis at capital cost allowance rates in accordance with the provisions of the Income Tax Act, Canada.

(e) Income Tax

The Corporation is subject to federal income tax and provides for income tax on the tax allocation basis. Under this basis the provision for income tax is determined from the earnings reported in the statement of operations rather than from the Corporation's income for tax purposes.

(f) Employees' Pension Plan

Current service costs of the employees' pension plan and interest on the unfunded liability are recorded as administrative expenses in the current year. Experience gains or losses are recognized in the year in which they are identified. An actuarial valuation is made at least every three years in accordance with the provisions of the Pension Benefits Standards Act.

(g) Deferred Profits

The Corporation disposes of real estate and federal-provincial land assembly projects extending mortgages and sales agreements with varying repayment terms. Income from these sales is recognized as payments are received.

(h) Reserve Fund

Income or loss after income taxes is transferred to the Reserve Fund which is limited by an Order-in-Council to $25 million. Any excess over this amount is transferred to the credit of the Receiver General for Canada.

(i) Interest Income and Expense

Interest income and expense are accounted for on the accrual basis.

2. Real Estate

The appraised value of real estate at November 30, 1985 is in excess of its book value by $67.8 million. However, potential losses on specific properties could amount to $20.1 million based on these appraised values. Real estate is net of accumulated depreciation, 1985—$17.3 million (1984—$17 million).

3. Borrowings from the Government of Canada

The Corporation borrows from the Government of Canada under the provisions of Section 22 of the CMHC Act and Sections 40 and 55 of the National Housing Act to finance investment in loans, federal-provincial agreements, real estate and agreements for sale and mortgages arising from sales of real estate. The borrowings are evidenced by debentures or other evidences of indebtedness, which bear interest at varying rates and are repayable over periods not in excess of 50 years.

4. Extraordinary Item

A study of the CMHC Pension Fund as at June 28, 1985 identified an experience loss of $9.6 million as a result of the effects of

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

CORPORATE ACCOUNT

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

the Corporation's Early Retirement Program. This amount, plus interest of $.5 million, was paid to the CMHC Pension Fund in December 1985 and recorded against operations as an extraordinary item net of income taxes of $4.8 million.

5. Subsequent Event

An actuarial valuation of the CMHC Pension Fund as at January 1, 1986, which included an analysis of current benefits experience, disclosed an increased unfunded future benefits obligation of $9.9 million. This amount will be recorded and recognized as a cost in 1986. The resulting total unfunded liability of $14.8 million will be funded by annual payments up to the year 2000.

6. Contingent Liabilities

In the normal course of operations, the Corporation is subject to legal claims, the effect of which cannot be determined until they are settled. At December 31, 1985, most of the claims outstanding are not expected to have a result which would be significant in relation to the financial position of the Corporation. However, during 1982 a large number of legal actions, which total approximately $48 million at December 31, 1985, were begun against the Corporation jointly with other parties claiming damages arising from installation of urea formaldehyde foam insulation.

The Corporation does not admit liability in these cases and, until the actions have been heard by the courts, it is impossible to determine if there is a potential liability in this respect and thus no provision for possible loss arising from these legal actions is included in these financial statements. Should costs arise as a result of these actions they would be expensed in the year when the costs are incurred.

7. Interest Loss Recoveries

The Corporation was authorized by the Government of Canada to approve certain loans and federal-provincial agreements at a negative interest margin and to recover this loss from the Government. The interest loss recovered is included in interest earnings. The recoveries by program are as follows:

	1985	1984
	(in millions of dollars)	
Market Housing	59.0	50.0
Social Housing	19.3	19.3
Community Services	1.3	1.3

8. Services to Others

The major components of services to others are: delivery of Canadian Home Insulation Program grants on behalf of Energy, Mines and Resources Canada; inspections; and administration of mortgages for third parties.

9. Administrative Expenses

Gross administrative expenses for the year ended December 31, 1985 amounted to $174.6 million (1984—$176.7 million) and included $6.8 million relating to early retirement incentive costs. Of the total gross administrative expenses, $44.6 million pertains to the Corporate Account (1984—$47.7 million).

10. Commitments

Commitments outstanding for investments under federal-provincial agreements and on loans amounted to $495 million at December 31, 1985 (1984—$600 million).

11. Comparative Figures

The 1984 comparative figures have been reclassified to conform to the statement presentation adopted in 1985.

CORPORATE ACCOUNT

LOANS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

SCHEDULE I

	1985	1984
Market Housing		
Loans	1,969,367	2,074,299
Federal-provincial agreements	70,386	81,087
Real estate	14,153	14,642
Agreements for sale and mortgages	29,739	42,682
	2,083,645	2,212,710
Social Housing		
Loans	5,003,634	5,027,965
Federal-provincial agreements	1,226,608	1,235,161
Real estate	37,806	36,266
Agreements for sale and mortgages	16,359	19,475
	6,284,407	6,318,867
Rehabilitation and Conservation		
Loans	155,091	160,519
Real estate	166	379
	155,257	160,898
Community Services		
Loans	1,321,562	1,358,453
Federal-provincial agreements	128,374	147,483
Real estate	20,281	22,575
	1,470,217	1,528,511
Total	9,993,526	10,220,986

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

MINISTER'S ACCOUNT

STATEMENT OF EXPENDITURES AND RECOVERIES FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Expenditures		
Mortgage Loan Insurance	195,600	367,500
Market Housing	50,684	91,602
Social Housing	1,182,671	938,826
Rehabilitation and Conservation	144,841	212,551
Community Services	6,071	19,097
Research, Development, Demonstration and Information	6,317	7,562
Administrative Expenses	61,332	63,385
Total	1,647,516	1,700,523
Accounts receivable from the Minister, beginning of year	21,818	49,092
	1,669,334	1,749,615
Recoveries	1,656,146	1,727,797
Accounts receivable from the Minister, end of year	13,188	21,818

See accompanying notes.

MINISTER'S ACCOUNT

NOTES TO THE FINANCIAL STATEMENT DECEMBER 31, 1985

1. Significant Accounting Policy

   Expenditures made on behalf of the Minister responsible for the Corporation are recorded as recoverable when disbursed.

2. Contingent Liabilities

   In the normal course of operations, the Corporation is subject to legal claims, the effect of which cannot be determined until they are settled. During 1982, a large number of legal actions, which total approximately $48 million at December 31, 1985, were begun against the Corporation jointly with other parties claiming damages arising from installation of urea formaldehyde foam insulation. The Corporation does not admit liability in this respect and it is unclear whether costs, if any, arising from these actions could be charged to the Government of Canada. Thus, no provision for possible loss arising from these legal actions is included in the accompanying statement of account. Should costs arise as a result of these actions they would be expensed in the year when the costs are incurred.

3. Mortgage Loan Insurance—Forgiveness of Budgetary Advances

   In December 1985, Treasury Board approved forgiveness of the borrowings by the Mortgage Insurance Fund of $255.5 million at December 31, 1985 or such lesser amount as may exist on the date that Royal Assent is given. The amount of $255.5 million comprises the budgetary advances of $195.6 million in 1985 and $59.9 million in 1984. This forgiveness represents partial reimbursement for the losses on the Assisted Home Ownership and Assisted Rental Programs.

FUNDS ADMINISTERED—MORTGAGE INSURANCE FUND

BALANCE SHEET AS AT DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984
Accounts Receivable		
Canada Mortgage and Housing Corporation	948	1,767
Other	26,747	11,340
	27,695	13,107
Mortgages	93,760	110,125
Real Estate		
At Cost	523,357	315,326
Provision for revaluation	204,639	166,145
	318,718	149,181
	440,173	272,413

LIABILITIES	1985	1984
Accounts Payable and Accrued Liabilities	4,934	5,234
Provision for Loss on Claims	271,139	394,942
Unearned Premiums	320,429	214,500
Premium Deficiency	316,110	384,000
Borrowings from the Government of Canada	255,500	59,900
	1,168,112	1,058,576
Deficit	727,939	786,163
	440,173	272,413

See accompanying notes.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

FUNDS ADMINISTERED— MORTGAGE INSURANCE FUND

STATEMENT OF OPERATIONS AND DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Revenue		
Premiums	64,521	66,833
Application fees	29,772	15,752
Interest	11,670	13,364
Total Revenue	105,963	95,949
Expenses		
Issuance	42,594	41,612
Loss on claims	73,035	423,833
Interest		23,929
	115,629	489,374
Adjustment to premium deficiency	(67,890)	187,095
Total Expenses	47,739	676,469
Profit (Loss) before Recovery	58,224	(580,520)
Recovery of Losses		307,600
Net Profit (Loss)	58,224	(272,920)
Deficit, beginning of year	786,163	513,243
Deficit, end of year	727,939	786,163

See accompanying notes.

FUNDS ADMINISTERED— MORTGAGE INSURANCE FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Cash from Operations		
Proceeds from real estate sales	243,451	220,756
Premiums	170,450	106,960
Application fees	29,772	15,752
Interest received	11,582	13,728
Claims paid	(585,955)	(356,497)
Real estate operations	(21,458)	(23,099)
Administrative costs	(68,715)	(65,608)
Interest paid		(34,065)
Proceeds from mortgage payments	24,454	19,859
	(196,419)	(102,214)
Cash from Investment Activities		
Treasury bills redeemed		32,089
		32,089
Cash from Financing Activities		
Borrowings from the Government of Canada	258,600	387,800
Repayment of borrowings	(63,000)	(309,600)
	195,600	78,200
Increase (Decrease) in Accounts Receivable from Canada Mortgage and Housing Corporation	(819)	8,075

See accompanying notes.

FUNDS ADMINISTERED— HOME IMPROVEMENT LOAN INSURANCE FUND

BALANCE SHEET AS AT DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984
Cash and Investment in Securities	1,179	7,592
Accounts Receivable from Canada Mortgage and Housing Corporation	7	
Mortgages	8	13
	1,194	7,605

LIABILITIES	1985	1984
Due to Canada Mortgage and Housing Corporation		7
Unearned Premiums	3	8
Surplus	1,191	7,590
	1,194	7,605

See accompanying notes.

FUNDS ADMINISTERED— HOME IMPROVEMENT LOAN INSURANCE FUND

STATEMENT OF OPERATIONS AND SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Revenue		
Interest	428	697
Other	36	80
Total Revenue	464	777
Expenses		
Claims and administrative charges	33	119
Net Income	431	658
Surplus, beginning of year	7,590	6,932
Assets returned to the Government of Canada	6,830	
Surplus, end of year	1,191	7,590

See accompanying notes.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

FUNDS ADMINISTERED— RENTAL GUARANTEE FUND

BALANCE SHEET AS AT DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984	LIABILITIES	1985	1984
Cash and Investment in Securities	3,438	21,148	Due to Canada Mortgage and Housing Corporation	69	
			Accrued Liabilities	122	
Real Estate			Surplus	10,997	26,548
At cost	10,936	10,579			
Provision for loss	3,186	5,179			
	7,750	5,400			
	11,188	26,548		11,188	26,548

See accompanying notes.

FUNDS ADMINISTERED— RENTAL GUARANTEE FUND

STATEMENT OF OPERATIONS AND SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Revenue		
Interest	1,188	1,904
Income from mortgages		519
Total Revenue	1,188	2,423
Expenses		
Provision for loss on real estate	(1,992)	5,179
Other	(69)	18
Total Expenses	(2,061)	5,197
Net Income (Loss)	3,249	(2,774)
Surplus, beginning of year	26,548	29,322
Assets returned to the Government of Canada	18,800	
Surplus, end of year	10,997	26,548

See accompanying notes.

FUNDS ADMINISTERED

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 1985

1. Significant Accounting Policies

The principal accounting policies followed by the Corporation in administering the Insurance and Guarantee Funds are:

(a) Premiums

Prior to February 1985, part of the premium charged for insurance was to cover the risk insured and part to cover costs of issuing the policy. After that date the entire premium charged is allocated to cover risk only. Risk related premiums are deferred and are taken into income over the life of the related policies. Premiums earned in a year reflect the amount of risk in that year in accordance with factors determined by the Department of Insurance Canada. The portion relating to issuance costs is taken into income as received.

(b) Application Fees

Application fees for insurance are recorded as income when received.

(c) Issuance Costs

Issuance costs are expensed as incurred.

(d) Premium Deficiency

Annually, the Corporation compares the amount of its unearned premiums by line of business to the discounted costs of claims that have not yet occurred on insurance policies in force. Whenever it is determined that the unearned premiums on a line of business are inadequate to meet the expected net costs of future claims, a premium deficiency is established. The premium deficiency is taken into income on the same basis as the related unearned premiums.

(e) Real Estate

Real estate acquired upon the payment of a claim resulting from a loan default is valued at net realizable value. Cost is comprised of the unpaid loan balance plus interest accrued to the date of acquisition together with acquisition and capital improvement expenditures. Net realizable value is calculated as the current appraised value of the property, as determined by the Corporation, less the discounted value of estimated holding and disposal costs. Depreciation is not recorded on the real estate.

(f) Provision for Loss on Claims

This provision represents the estimated loss on claims in process of payment and the estimated loss on loans, where defaults have occurred, but for which a claim has not yet been received by the Corporation.

(g) Interest Income and Expense

Interest income and expense are recorded on the accrual basis.

(h) Mortgages

Mortgages are shown net of a provision for losses.

(i) Income Tax

The Insurance and Guarantee Funds are not subject to the provisions of the Income Tax Act, Canada.

2. Borrowings from the Government of Canada—Mortgage Insurance Fund

The Corporation borrows from the Government of Canada, on behalf of the Fund, under provisions of Section 9 of the National Housing Act in order to meet the Fund's obligations. Borrowing arrangements pursuant to an Order-in-Council dated 8 August 1984 authorize interest free borrowings secured by promissory notes due on demand to a maximum of $400 million.

3. Actuarial Valuation—Mortgage Insurance Fund

At September 30, 1985 an actuarial study of the Fund undertaken by the Corporation during the year disclosed that the Fund continues to be insufficient to pay all future claims in respect of

CANADA MORTGAGE AND HOUSING CORPORATION—*Concluded*

FUNDS ADMINISTERED

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

business in force and that business undertaken subsequent to February 1, 1985 is being written on a break even basis. The major causes of the existing deficit are programs of a social nature where insufficient premiums were charged (the Assisted Home Ownership and the Assisted Rental Programs). The deficit as at September 30, 1985, estimated to be $777.3 million, has decreased to $727.9 million at December 31, 1985 as the result of the improved property appraisal values. The net realizable value of the real estate inventory at December 31, 1985 is 60.9% of cost (1984—47.3%).

4. Recovery of Losses—Mortgage Insurance Fund

In December 1985, Treasury Board approved forgiveness of the borrowings owed to the Government of Canada at 31 December 1985 or such lesser amount as may exist on the date that the Royal Assent is given. This forgiveness represents partial reimbursement for the losses on the Assisted Home Ownership and Assisted Rental Programs.

In 1986, the Corporation will pursue with the Government of Canada avenues for eliminating the remaining deficit.

5. Assets Transferred to the Consolidated Revenue Fund of Canada

Home Improvement Loan Insurance Fund

The Home Improvement Loan Insurance program is no longer active and in 1985, cash and investments of $6.8 million, identified as surplus to the operating requirements of the Fund, were transferred to the Consolidated Revenue Fund.

Rental Guarantee Fund

The Rental Guarantee program is no longer active and in 1985, cash and investments of $18.8 million, identified as surplus to the operating requirements of the Fund, were transferred to the Consolidated Revenue Fund.

6. Insurance in Force—Mortgage Insurance Fund

At 31 December 1985, the insurance policies in force totalled approximately $37.7 billion (1984—$35.1 billion).

7. Administrative Expenses—Funds Administered

The administrative expenses charged to the Funds by the Corporation for the year ended December 31, 1985 amounted to $68.7 million (1984—$65.6 million).

8. Comparative Figures

The 1984 comparative figures have been reclassified to conform to the statement presentation adopted in 1985.

SUMMARY PAGE

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.

MANDATE

To construct in the National Capital Region the National Gallery, the Canadian Museum of Civilization, (formerly called The National Museum of Man) and any other museum which the Governor in Council may direct.

BACKGROUND

The main structures of the Corporation's two projects are scheduled for completion in 1986-87. To March 31, 1986, the government had allocated for the Corporation a total of $261.0 million for these projects for the period to March 31, 1989.

CORPORATION DATA

HEAD OFFICE	55 Murray Street Ottawa, Ontario K1N 5M3
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Stewart McInnes, P.C., M.P.
DEPARTMENT	Public Works
DATE AND MEANS OF INCORPORATION	June 21, 1982; by letters patent (No. 0132114) under the *Canada Business Corporations Act.*
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	100.3	50.1	15.5	3.5
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	91.3	44.8	13.4	2.6
Cash from Canada in the period				
— budgetary	46.5	31.5	10.8	2.6
— non-budgetary	nil	nil	nil	nil

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors of the Canada Museums Construction Corporation Inc. is responsible for the financial statements and the integrity and objectivity of data contained therein. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on management's estimates and judgement.

Management has developed and maintains books of account, records, financial and management controls and information systems. These are designed to provide reasonable assurance that assets are safeguarded and controlled and that transactions are in accordance with the Financial Administration Act and regulations, and the articles and by-laws of the Corporation.

The Board of Directors appoints the Audit Committee which is composed of three directors. The Audit Committee meets annually to review and advise the Corporation with respect to the financial statements and the auditor's report thereon.

The Corporation's external auditor, the Auditor General of Canada, examines the financial statements and reports to the Minister of Public Works who is responsible for the Canada Museums Construction Corporation Inc.

R. Plourde
Treasurer and Comptroller

M. A. J. Lafontaine
Chairman and Chief Executive Officer

AUDITOR'S REPORT

THE HONOURABLE ROCH LA SALLE, P.C., M.P.
MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Canada Museums Construction Corporation Inc. as at March 31, 1986 and the statement of changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, and the articles and by-laws of the Corporation.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 20, 1986

BALANCE SHEET AS AT MARCH 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Cash and short-term deposits	4,177	4,025
Accounts receivable	116	88
Construction in progress (Schedule)	95,957	45,971
	100,250	50,084

LIABILITIES	1986	1985
Accounts payable and accrued liabilities	5,449	3,734
Contractors holdbacks payable	3,454	1,503
	8,903	5,237
SHAREHOLDERS' EQUITY		
Capital stock (Note 3)		
Contributed capital (Note 4)	91,347	44,847
	100,250	50,084

Approved by the Board:

M. A. J. LAFONTAINE
Chairman and Chief Executive Officer

JEAN E. PIGOTT
Director

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Operating activities		
Accounts receivable	(28)	107
Construction in progress (Schedule)	(49,986)	(32,102)
Accounts payable and accrued liabilities	1,715	1,830
Contractors holdbacks payable	1,951	1,289
Cash used in operating activities	(46,348)	(28,876)
Financing activities		
Contributed capital (Note 4)	46,500	31,495
Cash provided by financing activities	46,500	31,495
Increase in cash	152	2,619
Cash and short-term deposits		
Beginning of year	4,025	1,406
End of year	4,177	4,025

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986

1. Authority and activities

The Corporation was incorporated on June 21, 1982 under the Canada Business Corporations Act as an agent of Her Majesty pursuant to the Government Companies Operations Act, and was named as a parent Crown corporation on February 7, 1985 in Schedule C, Part I of the Financial Administration Act. Two-thirds of the capital stock is held by the Canada Lands Company Limited, also a parent Crown corporation. On May 16, 1985 one-third was transferred from the Minister of Communications to the Minister of Public Works, the Responsible Minister with whom the control of the Corporation lies.

The business of the Corporation is limited to construction, in the National Capital Region, of buildings for the National Gallery of Canada (NGC), the National Museum of Man (NMM) and any other national museum which the Governor in Council may direct, including the acquisition, control, administration and disposal of land required for the construction.

In September 1981, the Government allocated $185 million for the two projects. This was revised in November 1983 to $191.45 million. In October 1985 the Government approved an additional $69.54 million, bringing the total funds allocated to $260.99 million for the period to March 31, 1989 as follows:

	NGC	NMM	Total
	(in millions of dollars)		
Construction	116.27	109.20	225.47
Architects and consultants	10.12	13.60	23.72
	126.39	122.80	249.19
Administration expenses	5.90	5.90	11.80
	132.29	128.70	260.99

The Government also approved that the National Capital Commission contribute towards the landscaping of both projects, in the total estimated amount of $7 million which is to be provided out of the Commission's existing budget.

In its status report on the two museums submitted to Treasury Board in April 1986, the Corporation indicated that additional funding would be required to complete the two projects.

On April 24, 1986 the Treasury Board decided, among other things, to:

(a) Request that the Minister of Public Works seek Treasury Board consideration by September 15, 1986 of the construction of the NMM based on estimates which would provide for the establishment of realistic project objectives sufficiently accurate to obtain effective project approval.

(b) Direct that no new contracts be awarded for NMM prior to Treasury Board's consideration of the NMM issue, except for those contracts required for the closing in of the existing structures.

In February 1983, the Government approved the construction sites and architects and in November 1983, building concepts as developed by the architects and the long-term forecast of the building schedule and funding requirements for each museum. No provision was made for the cost of the sites. Major portions of the sites for the two museums are federally owned with the legal title to the lands currently belonging to the National Capital Commission. On March 26, 1986, the Treasury Board approved the transfer of the lands of NMM and NGC currently owned by the Commission to Department of Public Works. The transfer is subject to Governor in Council approval. Negotiations to resolve the issue of legal title to parts of the sites that are not federally owned are currently underway.

2. Significant accounting policies

(a) Basis of accounting

These financial statements account for the costs incurred by the Corporation in the construction of the museums. They do not account for costs incurred by the National Capital Commission for sites or by the National Museums of Canada for accommodations planning and fit-ups.

(b) Capitalization

All expenditures, including those for site evaluation, design, construction and administration, will be capitalized until the museums are completed. Interest and other income is credited to construction in progress. Costs are allocated direct to each museum when they can be specifically identified. All other costs are allocated equally to the two museums.

3. Capital stock

Three shares are authorized and issued at $1 per share and shall not be transferred without the approval of the Governor in Council.

4. Contributed capital

During the year funding of $46.5 million (Vote 20) was provided through the estimates of the Department of Communications for the expenditures of the Corporation (1985—$31.495 million, Vote 11 C of the Department of Public Works).

	1986	1985
	(in thousands of dollars)	
Opening balance	44,847	13,352
Funds provided through the estimates	46,500	31,495
Ending balance	91,347	44,847

5. Pension plans

The Corporation has entered into an agreement with one of its officers to provide him with supplementary pension benefits. Provided all terms and conditions of his employment agreement are fulfilled, the officer shall receive upon termination of employment on March 31, 1987, an annual pension of $35,000, inclusive of pension funds transferred from previous employment, indexed to the greater of the cost of living or 6%. As at March 31, 1986, $225,000 had been fully funded by the Corporation which, including accrued interest, should be sufficient to meet the future obligation.

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

In addition, the Corporation has instituted, with a private sector organization, a contributory pension plan covering all its regular employees. The employees and the Corporation contribute equally to the cost of the plan. The Corporation's contributions represent its total liability and are recognized in the accounts on a current basis.

Pension costs for these plans amounted to $70,244 for the year ended March 31, 1986 (1985—$102,475).

6. Contractual obligations

As at March 31, 1986, commitments for construction and related costs amounted to approximately $56.4 million as follows:

	(in thousands of dollars)
National Gallery of Canada	38,738
National Museum of Man	17,645
	56,383

7. Lease commitment

The Corporation has entered into a lease agreement for office space. Under the terms of the lease the future minimum rental payments is as follows:

	$
1986-87	540,000

8. Contingencies and claims

The cities of Ottawa and Hull are seeking building permit fees and development charges from the Corporation in the amount of $1.4 million. It is anticipated that the permit fees and development charges will be resolved by the Department of Public Works by means of exchange of real properties between the Department and the respective cities.

The Corporation has received claims from contractors, architects, construction managers, engineers and others amounting to approximately $5.9 million. Because the Corporation is unable to assess the likelihood of its having to make payments in respect of these claims, no provision has been made in these financial statements.

The Budget of May 23, 1985 imposed additional sales tax on prefabricated construction goods. The Corporation estimates that additional cost as a result of the increase in sales tax would amount to approximately $569,000 on existing contracts. Of this amount, $172,000 was accrued in the accounts as at March 31, 1986, pending sales tax claims to be submitted by contractors.

9. Related party transaction

The Department of Public Works assuming responsibility since May 1985 has provided technical support amounting to approximately $122,000. The Department has also provided without charge the services of a senior officer to the Corporation on a full time basis.

10. Administration expenditures

The Corporation incurred the following administration expenditures which have been allocated equally to each Museum on the schedule of construction in progress:

	1986	1985
	(in thousands of dollars)	
Salaries and employee benefits	1,299	1,463
Office accommodation	692	417*
Professional and special services	218	294
Communication	92	155
Rental of equipment	87	79
Utilities, material and supplies	53	78
Travel and transportation	38	174
Other	17	13
Public information	15	81
Office furniture and equipment	7	126
	2,518	2,880

* Adjusted to reflect an over-accrual of $164,000 in 1984. This adjustment has no effect on other Financial Statement items.

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.—*Concluded*

SCHEDULE OF CONSTRUCTION IN PROGRESS
FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	National Gallery of Canada			National Museum of Man			Total		
	Cumulative to March 31, 1985	1986	Cumulative to March 31, 1986	Cumulative to March 31, 1985	1986	Cumulative to March 31, 1986	Cumulative to March 31, 1985	1986	Cumulative to March 31, 1986
Site evaluation	108		108	108		108	216		216
Architects and consultants	5,881	2,916	8,797	6,319	2,902	9,221	12,200	5,818	18,018
Construction managers	1,408	951	2,359	1,316	935	2,251	2,724	1,886	4,610
Other construction costs	15,796	27,513	43,309	9,133	12,682	21,815	24,929	40,195	65,124
	23,193	31,380	54,573	16,876	16,519	33,395	40,069	47,899	87,968
Administration (Note 10)	3,485	1,259	4,744	3,485	1,259	4,744	6,970	2,518	9,488
	26,678	32,639	59,317	20,361	17,778	38,139	47,039	50,417	97,456
Less: interest income	534	216	750	534	215	749	1,068	431	1,499
	26,144	32,423	58,567	19,827	17,563	37,390	45,971	49,986	95,957

SUMMARY PAGE

CANADA PORTS CORPORATION

MANDATE

Planning and coordinating the development of the 15 ports and harbours, previously administered by the National Harbours Board, to achieve the objectives of the national ports policy and support Canadian international trade objectives, as well as other social and economic objectives. The Corporation is also responsible for the direct administration, management and control of the ports and harbours not granted local port corporation status.

BACKGROUND

The Corporation was established in 1983 with responsibility for the 15 ports and harbours across Canada that previously fell under the jurisdiction of the National Harbours Board. Subsequently, local port corporations were established at Montreal and Vancouver (in July 1983) at Halifax, Quebec and Prince Rupert (in June 1984) and at St. John's (in June 1985). These corporations are now operating with a high degree of local autonomy.

CORPORATION DATA

HEAD OFFICE	99 Metcalfe Street Ottawa, Ontario, K1A 0N6
STATUS	—Schedule C, Part II —an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	Pursuant to the *National Harbours Board Act,* R.S.C., 1970, C. N-8, s. 3; reconstituted by the *Canada Ports Corporation Act,* S.C. 1980-81-82-83, C. 121, s. 1, proclaimed February 24, 1983.
CHIEF EXECUTIVE OFFICER	Denis de Belleval
CHAIRMAN	Ronald Huntington
AUDITOR	Touche Ross and Co.

FINANCIAL SUMMARY* ($ million) The financial year is the calendar year.

	1985	**1984 (restated)**	**1983**
At the end of the year			
Total Assets	231.3	246.5	445.8
Obligations to the private sector	nil	nil	nil
Obligations to Canada	85.0	85.1	202.9
Equity of Canada	92.8	106.9	185.9
Cash from Canada in the year			
—budgetary	14.1	35.0	23.8
—non-budgetary	2.6	4.9	7.1

* Assets and related liabilities of this Corporation have been transferred to new local port corporations.

CANADA PORTS CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DONALD MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of Canada Ports Corporation as at December 31, 1985 and the statements of income, deficit, contributed capital and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and regulations, the Canada Ports Corporation Act and the by-laws of the Corporation.

Coopers & Lybrand
Chartered Accountants

Ottawa, Canada
February 21, 1986

BALANCE SHEET AS AT DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984 (restated Note 5)
Current		
Cash	641	894
Investments (Note 4)	61,740	59,134
Accounts receivable	4,237	4,116
Due from Canada	2,645	3,468
Materials and supplies	514	530
	69,777	68,142
Long-term investments (Note 4)	19,102	19,973
Investment in Ridley Terminals Inc. (Note 5)	16,227	21,024
Fixed assets (Note 7)	126,147	137,321
	231,253	246,460

LIABILITIES	1985	1984 (restated Note 5)
Current		
Accounts payable and accrued liabilities (Note 8)	13,539	14,607
Grants in lieu of municipal taxes	480	678
	14,019	15,285
Long-term		
Accrued employee benefits	1,554	1,562
Financing provided by a province (Note 9)	19,696	18,596
Loans from Canada (Note 10)	103,144	104,110
	124,394	124,268
EQUITY OF CANADA		
Contribution from Canada (Note 12)	20,072	20,072
Contributed capital	130,734	142,319
Deficit	57,966	55,484
	72,768	86,835
	231,253	246,460

On behalf of the Board:

THE HONOURABLE A.R. HUNTINGTON
Chairman

DENIS DE BELLEVAL
President and Chief Executive Officer

CANADA PORTS CORPORATION—*Continued*

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984 (restated Note 5)
Revenue from operations	23,548	24,862
Operating and administrative expenses—Net	17,581	16,981
Depreciation	5,933	6,290
Grants in lieu of municipal taxes	2,076	2,229
	25,590	25,500
Net loss from operations	(2,042)	(638)
Investment income	8,473	7,526
Interest expense	(3,720)	(3,413)
Net income before the undernoted items	2,711	3,475
Net income of ports established as local port corporations (Note 3)	468	3,714
Share in loss of Ridley Terminals Inc. (Note 5)	(4,797)	(1,406)
Net income (loss)	(1,618)	5,783

STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984 (restated Note 5)
Deficit at beginning of the year		
As previously reported	56,775	156,521
Adjustment of prior year's share in loss of Ridley Terminals Inc. (Note 5)	(1,291)	
As restated	55,484	156,521
Net income (loss)	(1,618)	5,783
	57,102	150,738
Deficit assumed by local port corporations (Note 3)		(95,254)
Surplus transferred to a local port corporation (Note 3)	864	
Deficit at end of the year	57,966	55,484

STATEMENT OF CONTRIBUTED CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Contributed capital at beginning of the year	142,319	322,385
Contributed capital transferred to local port corporations (Note 3)	(11,585)	(180,066)
Contributed capital at end of the year	130,734	142,319

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984 (restated Note 5)
Operating Activities		
Net income (loss)	(1,618)	5,783
Items not affecting cash		
Depreciation	6,078	7,981
Deferred interest	609	2,392
Share in loss of Ridley Terminals Inc.	4,797	1,406
Other	122	(241)
Decrease (increase) in operating components of working capital	(245)	4,371
Cash provided by operating activities	9,743	21,692
Financing Activities		
Capital grants	14,127	34,880
Loans from Canada	2,570	4,881
Recoverable contribution from Canada		106
Loans from Canada currently payable	(1,712)	(1,112)
Decrease (increase) in current portion of financing provided by a province	1,100	(810)
Repayment of deferred interest	(486)	
Cash provided by financing activities	15,599	37,945
Investing Activities		
Additions to fixed assets	17,310	43,516
Investment in Ridley Terminals Inc.—Net		3,159
Other	(12)	(242)
Cash required by investing activities	17,298	46,433
Increase in cash and short-term investments	8,044	13,204
Cash and short-term investments at beginning of the year	60,028	94,170
Cash and short-term investments transferred to local port corporations (Note 3)	(5,691)	(47,346)
Cash and short-term investments at end of the year	62,381	60,028

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985

1. Canada Ports Corporation Act

Canada Ports Corporation is established under the Canada Ports Corporation Act. The Act provides for the establishment of local port corporations to manage and operate selected ports. The Corporation is named in Part II of Schedule C of the Financial Administration Act and is exempt from income tax.

2. Significant accounting policies

(a) Financial statements

The financial statements of the Corporation include the accounts of all the ports and other facilities under its administration. The activities of the local port corporations are excluded from the financial statements from the date of their establishment.

(b) Investments

The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

(c) Investment in Ridley Terminals Inc.

The investment in Ridley Terminals Inc. is accounted for on the equity basis.

CANADA PORTS CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Continued*

(d) Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

(e) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(f) Insurance

The Corporation assumes substantially all risks against fire and general perils, as well as for workers' compensation claims. Any costs arising from these risks are recorded in the accounts in the year they can be reasonably estimated.

(g) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(h) Employee benefits

The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave, sick leave and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements, or in accordance with its policy.

(i) Interest on contribution from Canada

Interest on the contribution from Canada is reflected in the financial statements in the year paid as it is contingent upon the receipt of dividends from Ridley Terminals Inc.

3. Local Port Corporations

Effective June 1, 1985, the Port of St. John's was established as a local port corporation under the name of St. John's Port Corporation. The Port of Halifax, the Port of Québec and the Port of Prince Rupert had been previously established as local port corporations on June 1, 1984 under the names of Halifax Port Corporation, Port of Québec Corporation and Prince Rupert Port Corporation.

In accordance with the Canada Ports Corporation Act, the assets, liabilities and equity were transferred to the local port corporations at their carrying value in the accounts of the Corporation as follows:

	1985	1984
	(in thousands of dollars)	
Assets		
Cash and short-term investments	5,691	47,346
Other working capital	(303)	(2,248)
Long-term investments	944	6,589
Long-term amounts receivable		245
Fixed	8,135	152,425
	14,467	204,357
Liabilities		
Long-term accrued employee benefits	69	1,619
Loans from Canada	1,949	68,668
Recoverable contribution from Canada		49,258
	2,018	119,545
Equity		
Contributed capital	11,585	180,066
Deficit		(95,254)
Surplus	864	
	14,467	204,357

The statement of income includes the results of operations of the Port of St. John's for the five month period ended May 31, 1985 and for the year ended December 31, 1984, and the results of operations of the Port of Halifax, the Port of Québec and the Port of Prince Rupert for the five month period ended May 31, 1984 as follows:

	1985	1984
	(in thousands of dollars)	
Revenue from operations	975	15,753
Operating and administrative expenses	573	11,520
Depreciation	145	1,691
Grants in lieu of municipal taxes	18	1,351
	736	14,562
Net income from operations	239	1,191
Investment income	291	2,678
Interest expense	(62)	(155)
Net income of ports established as local port corporations	468	3,714

4. Investments

Investments, which are direct and guaranteed securities of Canada, are:

	1985		1984	
	Cost	Market Value	Cost	Market Value
	(in thousands of dollars)			
Current	61,740	61,726	59,134	59,360
Long-term	19,102	21,830	19,973	20,015

5. Investments in Ridley Terminals Inc.

Ridley Terminals Inc. (RTI) was incorporated on December 18, 1981, under the Canada Business Corporations Act to develop, manage and operate a coal terminal on Ridley Island at the Port of Prince Rupert.

CANADA PORTS CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Continued*

At December 31, 1985, Canada Ports Corporation (the Corporation) had acquired, at a cost of $23,021,400, 90% of the issued common shares ($900) and 100% of the Class A preference shares ($23,020,500) of RTI. As of that date, Fednav Limited had acquired, at a cost of $23,020,600, 10% of the issued common shares ($100) and 100% of the Class B preference shares ($23,020,500) of RTI.

As a result of RTI's successful appeal of the assessment of the 1983 and 1984 property taxes $2,582,000 was refunded to RTI in March 1985. The Corporation's deficit balance at January 1, 1985, has been adjusted by $1,291,000 representing the Corporation's 50% share of the amount received. Since RTI began operations in 1984, net income for that year has been restated by the entire amount.

The Corporation's investment in RTI is accounted for on the equity basis. Application of this method in years in which RTI has a deficit requires that the Corporation recognize a share of the results of operations of RTI equal to its participation in the total equity in RTI which, at December 31, 1985, was 50%. In years in which RTI has retained earnings, the Corporation's share of the results of operations will be proportionate to its shareholding in common shares, after recognizing the dividend requirements of the two classes of preference shares.

The investment in Ridley Terminals Inc. is composed of:

	1985	1984
	(in thousands of dollars)	(restated)
Balance at beginning of the year	21,024	19,271
Investment in shares		3,450
Elimination of inter-company charges		(291)
Share in loss	(4,797)	(1,406)
Balance at end of the year	16,227	21,024

A summary of the balance sheet of RTI as reported in its audited financial statements shows:

	1985	1984
	(in thousands of dollars)	(restated)
Assets		
Current	4,580	8,739
Fixed	230,540	236,420
Other	92	100
	235,212	245,259
Liabilities		
Current	1,941	3,768
Long-term debt	199,636	198,261
	201,577	202,029
Equity	33,635	43,230
	235,212	245,259

RTI has long-term financing agreements with a major Canadian bank as follows:

(a) A construction credit agreement which is guaranteed unconditionally by Canada and is further secured by a $250,000,000 floating charge collateral demand debenture. On July 1, 1985, all borrowings converted to a fifteen year term loan with specified semi-annual repayments commencing July 31, 1991 and the balance repayable January 31, 2000. As at December 31, 1985, the indebtedness under this agreement amounted to $199,036,000.

This indebtedness includes bank loans of $65,000,000 at the bank's prime rate payable monthly, and Bankers Acceptances, net of unamortized interest charges, of $134,036,000. The Bankers' Acceptance fee is currently ½% per annum.

(b) A revolving credit loan agreement which provides an $80,000,000 credit facility for advances on a revolving basis until June 30, 1989 at which time all borrowings will convert to a term loan repayable in specified semi-annual instalments and the balance on January 31, 1992. This agreement is secured by a collateral demand debenture with the terminal facility as security and an assignment of the lease with the Prince Rupert Port Corporation. Interest on the revolving credit loan agreement is at the bank's prime rate plus ¼% per annum, payable monthly. As at December 31, 1985, drawdowns of this credit facility amounted to $600,000.

The Class A preference shares carry a fixed cumulative dividend at a rate of 18% per annum on their stated value. The Class B preference shares carry a fixed cumulative dividend at a rate sufficient to net 20% after tax per annum on their stated value. The Class B preference share annual dividend of 20% is a net sum after deducting an amount equal to the prevailing aggregate federal and provincial corporate income and profit taxes applicable to the dividend.

Holders of the Class A and B preference shares are entitled to interest at the respective dividend rates in the event that dividends accrued are not paid. Unpaid interest compounds annually at the same respective rates. Interest has accrued since April 30, 1982. The preference shares are redeemable at any time at their stated value plus accrued dividends and unpaid interest thereon. Preference dividends and related interest in arrears at December 31, 1985, calculated at tax rates prevailing as at that date with respect to the Class B rate amount to:

	1985	1984
	(in thousands of dollars)	
Class A preference shares held by Canada Ports Corporation	12,930	7,196
Class B preference shares held by Fednav Limited	29,764	15,793
	42,694	22,989

RTI became operational September 1, 1984. The results of its operations for the year ended December 31, 1985, in comparison with the four month period ended December 31, 1984, are as follows:

	1985	1984
	(in thousands of dollars)	(restated)
Revenue from operations	30,855	12,008
Operating and administrative expenses	12,943	4,377
Depreciation	7,212	2,255
Interest expense	20,294	8,188
	40,449	14,820
Net loss	(9,594)	(2,812)

CANADA PORTS CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Continued*

6. Debentures of Saint John Harbour Bridge Authority

The Saint John Harbour Bridge Authority is indebted in the amount of $14,257,000 (1984—$14,355,000) to the Corporation which in turn is indebted to Canada in the same amount, in accordance with the provisions of Vote L106B, Appropriation Act No. 7, 1967, 1967-68, c. 8. The interest and repayment terms of the parliamentary advances to the Corporation are identical to those of the debentures of the Authority. Under the terms of the agreement between Canada and the Authority, Canada has, in effect, guaranteed the repayment of both principal and interest on the debentures. Therefore, both the debentures received and advances and loans payable to Canada have been offset against each other and are not reflected as a separate asset and liability on the balance sheet. Interest income and expense of $978,000 (1984—$985,000) have been similarly offset and do not appear in the statement of income.

On July 9, 1981, Treasury Board agreed to the transfer of the responsibility for the administration of the indebtedness of Saint John Harbour Bridge Authority as well as the equivalent loan payable to Canada from the accounts of the Corporation to those of Transport Canada. As at December 31, 1985, this transfer had not been completed.

7. Fixed assets

(a) Summary

	1985				1984
	Depre-ciation rates	Cost	Accu-mulated depre-ciation	Net	Net
	%	(in thousands of dollars)			
Land		35,647		35,647	38,843
Dredging	2.5-6.7	11,297	6,110	5,187	5,619
Berthing structures	2.5-10	96,869	40,779	56,090	58,515
Buildings	2.5-10	31,266	18,538	12,728	14,077
Utilities	3.3-10	9,986	3,581	6,405	6,920
Roads and surfaces	2.5-10	6,598	4,869	1,729	2,176
Machinery and equipment	5-100	21,912	15,575	6,337	7,458
Office furniture and equipment	20	2,509	2,047	462	514
Works under construction		1,562		1,562	3,199
		217,646	91,499	126,147	137,321

(b) Capital grants

During the year, the Corporation received capital grants totalling $14,127,000 (1984—$34,880,000) towards the construction of capital projects.

(c) Capital expenditure commitments

Contractual obligations for the completion, construction and purchase of fixed assets are estimated at $3,700,000, of which most will be expended in the year ending December 31, 1986.

8. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are the following:

	1985	1984
	(in thousands of dollars)	
Deferred revenues	749	1,003
Current portion of long-term liabilities	1,712	2,212

9. Financing Provided by a Province

The Province of New Brunswick advanced $25,000,000 to partially finance the construction of Rodney Terminal, Saint John, which is owned by the Corporation. Until the non-interest bearing advance is repaid, the Province will receive annual principal payments equal to 47% of the net operating income of the terminal. As at December 31, 1985, the Corporation has not provided for any current portion payable estimated at $750,000 as the net operating income has been eliminated by the application of the cost of major repairs to the terminal. The Province is disputing this accounting treatment.

10. Loans from Canada

	1985	1984
	(in thousands of dollars)	
Loans bearing interest at 6.44% to 15.625% with blended annual principal and interest repayment requirements of $4,870,000 and maturing between December 31, 1993 and 2005	29,362	29,470
Deferred interest	4,371	4,247
Less: current portion	1,712	1,112
	32,021	32,605
Non-interest bearing loans with indefinite due date	55,609	55,609
Accrued interest on loans not due and payable	15,514	15,896
	103,144	104,110

Loans of $19,737,000 from Canada for the construction of new terminal facilities for the Port of Saint John bear interest at rates of between 11.0% and 15.6%. Payment of the interest on these loans was deferred until March 31, 1985, and thereafter repayment is to be made in ten equal instalments of $486,000, without interest, commencing December 31, 1985.

Principal repayment requirements over the next five years amount to $1,226,000 in 1986, $1,369,000 in 1987, $1,529,000 in 1988, $1,708,000 in 1989 and $1,909,000 in 1990.

11. Contingencies

Claims aggregating approximately $1,500,000 in respect of lawsuits, guarantees, employee agreements, damage allegedly suffered on the Corporation's property and sundry other matters in dispute have been received by the Corporation but are not reflected in the accounts. In the opinion of the Corporation, the final outcome of such claims should not result in any material financial liability.

CANADA PORTS CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

12. Contribution from Canada

In 1982, the Corporation received from Canada a contribution of $20,072,000 for the purchase of shares in Ridley Terminals Inc. The terms and conditions of repayment of the contribution are to be determined by Treasury Board and the Corporation prior to April 1, 1989.

Interest is to be calculated on the contribution at the average borrowing rate for Crown corporations in effect while the contribution is outstanding. The payment of principal and interest is contingent upon the receipt of dividends from Ridley Terminals Inc. Interest on this contribution will be reflected in the financial statements in the year paid. At December 31, 1985, the interest accumulated is approximately $9,500,000.

13. Subsequent Event

Canada has requested cash contributions from various Crown Corporations. As part of this cash recovery exercise, there was a request for a contribution of $133,000,000 from the Ports Canada system made up of the Canada Ports Corporation and the six Local Port Corporations, of which $83,000,000 is payable by March 31, 1986, and $50,000,000 by June 30, 1986.

The Board of Directors of Canada Ports Corporation has resolved at its meeting of February 11, 1986, to remit to Canada the sum of $17,536,000 representing the Corporation's share of the $83,000,000 requested contribution payable by March 31, 1986. The Corporation's share of the $50,000,000 payable by June 30, 1986 has not yet been considered by the Board.

14. Comparative Figures

The 1984 figures have been reclassified in order to conform with this year's presentation.

SUMMARY PAGE

CANADA POST CORPORATION

MANDATE

To operate a postal service on a self-sustaining financial basis while providing a standard of service that will meet the needs of Canadians.

BACKGROUND

The *Canada Post Corporation Act* requires the Corporation to fulfill its mandate while "improving and extending its products and services," having regard to "the need to conduct its operations on a self-sustaining financial basis." The Corporation is also called upon to manage its human resources "in a manner that will both attain the objects of the Corporation and ensure the commitment and dedication of its employees."

CORPORATION DATA

HEAD OFFICE	Sir Alexander Campbell Building Confederation Heights Ottawa, Ontario K1A 0B1
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Michel Côté, P.C., M.P.
DEPARTMENT	Regional Industrial Expansion
DATE AND MEANS OF INCORPORATION	Pursuant to the *Canada Post Corporation Act* (S.C. 1981, C. 54), proclaimed October 16, 1981.
CHIEF EXECUTIVE OFFICER	Donald H. Lander
CHAIRMAN	Sylvain Cloutier
AUDITOR	Maheu Noiseux and the Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	2,451	2,370	2,403	2,260
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	1,576	1,602	1,645	1,638
Cash from Canada in the period				
— budgetary*	184	347	306	262
— non-budgetary	nil	nil	nil	nil

* Budgetary amounts do not include the special payments for cultural and other mails.

CANADA POST CORPORATION

RESPONSIBILITY FOR FINANCIAL REPORTING

The Board of Directors is responsible for the financial statements and all other information presented in this annual report in accordance with the Financial Administration Act and regulations. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on management's estimates and judgment.

Management has developed and maintains books of account, records, financial and management control and information systems and management practices. These are designed to provide reasonable assurance that assets are safeguarded and controlled, and transactions are in accordance with the Financial Administration Act and regulations as well as the Canada Post Corporation Act and by-laws of the Corporation. Internal audits are conducted to assess these systems and practices.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through the Audit Committee which is composed of five directors, three of whom are not employees of the Corporation. The Audit Committee meets at least annually to review, and advise the Board of Directors with respect to, the financial statements and the auditors' annual report. The Audit Committee also oversees the internal audit activities of the Corporation and performs such other functions as are assigned to it.

The Corporation's external auditors, the Auditor General of Canada and Maheu Noiseux, examine the financial statements and report to the Minister Responsible for Canada Post Corporation.

AUDITORS' REPORT

THE HONOURABLE MICHEL CÔTÉ, P.C., M.P.
MINISTER RESPONSIBLE FOR CANADA POST CORPORATION

We have examined the balance sheet of Canada Post Corporation as at March 31, 1986 and the statements of equity of Canada, operations and Government funding and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canada Post Corporation Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Maheu Noiseux
Chartered Accountants

Ottawa, Canada
June 18, 1986

BALANCE SHEET AS AT MARCH 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Current		
Cash	481,008	389,191
Accounts receivable		
Government of Canada	9,389	4,284
Foreign postal administrations	80,456	74,015
Other	8,731	9,782
Prepaid expenses	35,821	38,893
	615,405	516,165
Fixed (Notes 4 and 8)		
Land, buildings and equipment	1,800,238	1,747,204
Less: accumulated depreciation	321,821	243,170
	1,478,417	1,504,034
Other		
Deferred employee termination benefits	357,606	349,714
National Postal Museum (Note 5)	1	1
	357,607	349,715
	2,451,429	2,369,914

LIABILITIES AND EQUITY OF CANADA	1986	1985
Current liabilities		
Accounts payable and accrued liabilities		
Government of Canada	101,510	31,747
Foreign postal administrations	8,511	5,659
Other	63,928	53,129
Salaries and benefits	144,200	134,686
Deferred revenues	133,506	124,037
Outstanding money orders	59,217	63,167
Deposits	7,033	6,240
	517,905	418,665
Employee termination benefits (Note 6)	357,606	349,714
EQUITY OF CANADA	1,575,918	1,601,535
	2,451,429	2,369,914

Contingent liabilities (Note 7)

Approved by the Board:

RENÉ J. MARIN
Chairman

IRVING R. GERSTEIN
Chairman, Audit Committee

CANADA POST CORPORATION—*Continued*

STATEMENT OF EQUITY OF CANADA
YEAR ENDED MARCH 31
(in thousands of dollars)

	1986	1985
Contributed capital		
At beginning of year	1,677,692	1,673,779
Parliamentary appropriation for special purposes (Note 8)	526	3,913
At end of year	1,678,218	1,677,692
Accumulated Government funding adjustment		
At beginning of year	76,157	28,287
Loss from operations	210,427	395,069
Government funding	(184,284)	(347,199)
At end of year	102,300	76,157
Equity of Canada	1,575,918	1,601,535

STATEMENT OF OPERATIONS AND GOVERNMENT FUNDING
YEAR ENDED MARCH 31
(in thousands of dollars)

	1986	1985
Revenues		
Postage	2,340,887	2,119,123
International settlements	119,387	96,151
Philatelic and retail sales	21,760	21,396
Post office box rentals	18,602	18,445
Money order fees	15,936	10,634
Other	16,009	8,849
	2,532,581	2,274,598
Cultural publication mailings subsidy (Note 9)	225,093	225,650
	2,757,674	2,500,248
Expenses		
Salaries and benefits	2,208,379	2,120,040
Transportation	306,612	297,095
Accommodation	136,088	149,812
Depreciation	79,534	77,287
International settlements	66,663	47,587
Materials and supplies	45,633	44,639
Travel and communications	35,435	40,793
Computer, security and professional services	32,402	51,532
Commissions and fees	31,293	31,145
Rentals, repairs and maintenance	9,066	9,708
Advertising and publications	7,593	15,682
Other	9,403	9,997
	2,968,101	2,895,317
Loss from operations	210,427	395,069
Government funding adjustment (Note 10)	26,143	47,870
Government funding (Note 10)	184,284	347,199

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED MARCH 31
(in thousands of dollars)

	1986	1985
Cash from operations		
Loss from operations	(210,427)	(395,069)
Items not requiring cash		
Depreciation	79,534	77,287
Loss/(gain) on disposal of fixed assets	883	(13)
	(130,010)	(317,795)
Government funding	184,284	347,199
Changes in non-cash working capital items		
Accounts receivable	(10,495)	175,601
Accounts payable and accrued liabilities	83,414	(60,087)
Deferred revenues	9,469	11,341
Outstanding money orders	(3,950)	8,898
Other	13,379	30,715
	146,091	195,872
Cash from financing		
Parliamentary appropriation for special purposes	526	3,913
Cash invested		
Land and buildings acquisitions	(15,394)	(21,994)
Equipment acquisitions	(40,529)	(15,436)
	(55,923)	(37,430)
Parliamentary appropriation for special purposes	435	3,671
Proceeds on disposal of fixed assets	688	442
	(54,800)	(33,317)
Cash increase	91,817	166,468
Cash at beginning of year	389,191	222,723
Cash at end of year	481,008	389,191
Represented by		
Cash	423,696	326,024
Money order funds in trust	57,312	63,167

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986

1. Incorporation

The Corporation was established by the Canada Post Corporation Act on October 16, 1981 to operate a postal service on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada. The Corporation is a Crown corporation included in Part I of Schedule C to the Financial Administration Act and is an agent of Her Majesty. The Corporation is exempt from income taxes.

The Canada Post Corporation Act provided that all the property, assets, rights, obligations and liabilities of the Post Office Department be transferred to the Corporation from the Government of Canada.

2. Rate regulation

The Canada Post Corporation Act provides that the Corporation may make regulations prescribing rates of postage that are fair and reasonable so as to provide revenue together with any revenue from other sources, sufficient to defray the costs incurred by the Corporation in the conduct of its operations. The Corporation is required to publish each proposed regulation for interested persons to make representations to the Minister responsible for the Corporation, who thereafter submits the regulation to the Governor in Council for consideration and subsequent approval or refusal.

CANADA POST CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Continued*

3. Significant accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles. A summary of the significant accounting policies of the Corporation follows:

(a) Fixed assets and depreciation

Land, buildings, and equipment transferred from the Government of Canada on October 16, 1981 were recorded at their fair value at that date, determined as follows:

Land	— Market value based on existing use
Buildings	— Depreciated replacement cost
Plant equipment, vehicles, and sales counter and office furniture and equipment	— Depreciated replacement cost or original cost less estimated depreciation

The market value of land and the depreciated replacement cost of buildings transferred by the Government of Canada was determined by independent appraisals. Acquisitions subsequent to October 16, 1981 are recorded at cost.

Minor equipment, including mail bags and mail boxes, was recorded at an estimated depreciated replacement cost of $34,640,000 at October 16, 1981. Subsequent additions to the base amount are recorded at cost. No depreciation is provided on the base amount or subsequent additions thereto. Replacement equipment is expensed as purchased.

Depreciation is provided on the straight-line basis over the estimated useful lives of the following assets:

Buildings	30 and 40 years
Plant equipment	4 to 30 years
Vehicles (other than passenger and light duty commercial)	6 to 10 years
Sales counter and office furniture and equipment	5 to 20 years

Depreciation is provided on the diminishing balance basis at an annual rate of 30 per cent for all passenger and light duty commercial vehicles.

(b) Employee termination benefits

Employees of the Corporation are entitled to specified termination benefits, calculated at salary levels in effect at the time of termination, as provided for under collective agreements and conditions of employment.

Until such time as the Corporation becomes self-sustaining (anticipated to be the year ending March 31, 1988), the present value of the projected costs of employee termination benefits is recorded in the accounts as a long-term liability offset by a deferred charge, since such costs will be recovered from future postal revenues and/or Government funding (Notes 6 and 10). The deferred costs are amortized and charged to operations on the same basis as the liability is paid and recovered from revenues and/or Government funding.

(c) Revenue recognition

Amounts received for which services have not been rendered prior to the end of the year are deferred.

(d) Parliamentary appropriations

The Government of Canada, through parliamentary appropriations, provides funding for certain operations of the Corporation as outlined in Notes 9 and 10. The Corporation accounts for these parliamentary appropriations in operations of the year to which they relate.

Parliamentary appropriations representing Government contributions are credited to equity of Canada. Funding of capital items under a Government assistance program is applied to reduce the capital cost as outlined in Note 8.

(e) Workers' compensation

The Corporation assumes all risks for workers' compensation claims. The estimated costs of such claims, as a result of injuries on duty, are recorded as expenses in the year of injury. All payments for injuries suffered by employees prior to October 16, 1981 are the responsibility of the Government of Canada, since they are the liability of the Department of Labour.

(f) Pension plan

Employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Under present legislation, contributions made by the Corporation to the Plan are limited to an amount equal to the employees' contributions on account of current service. These contributions, which amounted to $96,360,000 (1985 — $94,459,000), represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account and/or with respect to charges to the Consolidated Revenue Fund for indexation payments under the Supplementary Retirement Benefits Act.

(g) Development costs

Development costs are charged to operations as incurred, unless the future market for and technical feasibility of a service or system are clearly defined and the recovery of the related costs can reasonably be regarded as assured. In such cases, costs incurred are deferred until implementation of the service or system. The deferred costs are amortized and charged to operations on a straight-line basis over the estimated useful life of the service or system.

(h) Foreign currency translation

Revenues and expenses relating to transactions with foreign postal administrations are translated into Canadian dollars at the exchange rates at the time of transaction. Amounts due to or from foreign postal administrations at the balance sheet date are translated at the then prevailing exchange rates. Gains or losses arising from translation of foreign currencies are included in operations.

4. Fixed assets

	1986			1985
	Cost or fair value	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Land	237,564		237,564	236,622
Buildings	964,496	154,450	810,046	833,139
Plant equipment	421,889	120,786	301,103	320,790
Vehicles	56,104	29,330	26,774	27,593
Mail bags, mail boxes and other	41,701		41,701	34,640
Sales counter and office furniture and equipment	78,484	17,255	61,229	51,250
	1,800,238	321,821	1,478,417	1,504,034

CANADA POST CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Continued*

5. National Postal Museum

The Corporation operates a museum which contains philatelic material, postal artifacts, a postal library and other postal memorabilia. Since these collections and books are not for resale and are of undetermined value, they have been recorded at a nominal amount of $1,000.

6. Employee termination benefits

At the time of incorporation on October 16, 1981, the Corporation assumed the liability related to termination benefits which had accrued to employees of the Post Office Department. In addition, the Corporation recognizes in the accounts the liability for benefits accruing to employees of the Corporation since October 16, 1981. The present value of these projected liabilities and the corresponding deferred charge remaining to be amortized and charged to operations at March 31, amounted to:

	1986	1985
	(in thousands of dollars)	
Accumulated to October 16, 1981	239,643	258,956
Accumulated subsequent to October 16, 1981	117,963	90,758
	357,606	349,714

The total charge to operations for employee termination benefits amounted to $29,788,690 (1985 — $20,958,000).

7. Contingent liabilities

(a) Two complaints have been filed with the Canadian Human Rights Commission, alleging discrimination by the Corporation concerning work of equal value. A settlement with no retroactive effect has been reached with one claimant. The Commission now has this settlement before it for approval. The Commission's investigation of the second complaint is continuing and the outcome is not presently determinable. Settlement, if any, arising from the resolution of these matters, will be recovered in future postal rates (as determined in accordance with the Canada Post Corporation Act) and/or from the Government of Canada.

(b) Employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and are dependent on future illness. The amount of accumulated sick leave entitlements which will become payable cannot reasonably be determined. Sick leave benefits are expensed as paid.

8. Parliamentary appropriation for special purposes

Appropriations for special purposes made to the Corporation by the Government of Canada have been allocated as follows:

	1986	1985
	(in thousands of dollars)	
Unexpended balance at beginning of year	2,492	3,114
Parliamentary appropriation for special purposes	730	6,962
Total available	3,222	10,076
Credited to		
Equity of Canada (Government-directed relocation)	526	3,913
Fixed asset acquisitions (Government assistance)	435	3,671
	961	7,584
Unexpended balance at end of year (in current liabilities)	2,261	2,492

9. Cultural publication mailings subsidy

The Government of Canada provides assistance to the publishing industry by making the following payments which compensate the Corporation for reduced postal revenue from that source:

	1986	1985
	(in thousands of dollars)	
Department of Consumer and Corporate Affairs (1985—Department of Labour)	170,000	170,000
Department of Communications	55,093	55,650
	225,093	225,650

The current agreements stipulate that this assistance will continue at a reduced level until March 31, 1987. The amount of this and future assistance is currently under review with the Government of Canada.

10. Government funding

The Canada Post Corporation Act provides that where the annual revenues of the Corporation are insufficient to permit the Corporation to pay all its operating and income charges, the amount of the insufficiency shall be included in the form of a deficit appropriation in the next estimates laid before Parliament.

By arrangement with the Government of Canada, the annual deficit appropriation comprises the loss from operations as reflected in the Corporation's financial statements, adjusted for the difference between depreciation and capital expenditures.

11. Development costs

During the year, the Corporation continued major development activity. The related costs totalling $18,800,000 (1985 — $22,823,000) and attributable to production measurement and other operating and information systems, have been charged to operations.

12. Lease commitments

The Corporation leases certain facilities under operating leases which expire at various dates between 1987 and 2015. The Corporation's future minimum rental payments required under operating leases that have terms in excess of one year, are as follows:

	(in thousands of dollars)
1987	31,093
1988	27,171
1989	23,340
1990	18,317
1991	13,487
1992 to 2015	42,607
	156,015

13. Related party transactions

The Corporation had the following transactions with related parties in addition to those disclosed elsewhere in these financial statements.

CANADA POST CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

(a) Property Management

The Corporation has a property management arrangement with the Department of Public Works to manage substantially all the Corporation's real property. Operating, maintenance, leasing and other accommodation costs, excluding grants in lieu of property taxes incurred by the Department of Public Works, plus a management fee charged to operations amounted to $130,840,000 (1985—$146,150,000). Rental income from third parties of $6,320,000 (1985—$7,520,000) is included in other revenues. Capital expenditures including a management fee amounted to $13,270,000 (1985—$23,440,000).

(b) Financing

At the present time, the Corporation's receipts are deposited to the credit of the Corporation in the Consolidated Revenue Fund of the Government of Canada and its expenditures are paid out of the amounts held to its credit in this Fund. Where, at any time, the available revenues of the Corporation are not sufficient to pay all the operating and income charges as and when due, the Minister of Finance may, with approval, place at the disposal of the Corporation such amounts as may be required to enable the Corporation to meet all such charges. The Corporation is not charged interest, nor does it receive interest, on its balance in the Consolidated Revenue Fund.

(c) Money orders

Funds received from the issue of money orders are held in trust to the credit of the Corporation in the Consolidated Revenue Fund of the Government of Canada until required for redemption of the money orders and/or settlement with foreign postal administrations. Interest is not received on the funds on deposit, nor is there a charge by the Government of Canada for expenses relating to the redemption of money orders.

(d) Other

In the normal course of business, the Corporation enters into various other transactions, such as the provision of postal services and the purchase of air and rail transportation, with the Government of Canada, its agencies and other Crown corporations.

SUMMARY PAGE

CANADIAN ARSENALS LIMITED

MANDATE

To provide an industrial base to fulfill the requirements of Canada's national defence for large calibre ammunition and complimentary products, with the assistance of the private sector to every extent possible.

BACKGROUND

The corporation was responsible for the rationalization and the scaling-down of operations and facilities used in World War II and in the Korean Conflict. Its only large purchaser was the Department of National Defence and its selling prices were related to its costs. *The Canadian Arsenals Limited Divestiture Authorization Act* was proclaimed on May 1, 1986 and on May 9, the Corporation was sold for $92.2 million to the SNC Group.

CORPORATION DATA

HEAD OFFICE	1 complexe Desjardins Suite 3017 P.O. Box 665 Desjardins Station Montreal, Quebec H5B 1B8
STATUS	Sold to private sector interests
DATE AND MEANS OF INCORPORATION	September 10, 1945; by letters patent - under Part I, *Companies Act* 1934. Continued under the *Canada Business Corporations Act*, October 20, 1980.

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1984-85	**1983-84**	**1982-83**	**1981-82**
At the end of the period				
Total Assets	126.0	88.9	83.5	93.4
Obligations to the private sector	10.3	1.7	0.2	0.3
Obligations to Canada	4.7	4.7	4.7	4.7
Equity of Canada	52.7	43.9	38.2	34.3
Cash from Canada in the period				
— budgetary	nil	nil	nil	nil
— non-budgetary	nil	nil	nil	nil

Note: 1985-86 data were not available when this Report went to press.

CANADIAN ARSENALS LIMITED

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1986
WERE NOT AVAILABLE AT DATE OF PRINTING

SUMMARY PAGE

CANADIAN BROADCASTING CORPORATION

MANDATE

Develop and provide a national broadcasting service for all Canadians in both official languages, in television and radio, and provide an international service.

BACKGROUND

Established in 1936 by the *Broadcasting Act*; major amendments were made to this Act in 1958 and 1968. In May 1985, the government appointed a Task Force to review broadcasting in Canada. Its report was presented in 1986 and is being considered by the government.

CORPORATION DATA

HEAD OFFICE	1500 Bronson Avenue Ottawa, Ontario K1G 3J5
STATUS	— an agent of Her Majesty — exempted from Divisions I to IV of Part XII of the *Financial Administration Act*; subject to Part VIII of this Act as it read immediately before the (1984) repeal thereof
APPROPRIATE MINISTER	The Honourable Flora MacDonald, P.C., M.P.
DEPARTMENT	Communications
DATE AND MEANS OF INCORPORATION	1936, by *the Broadcasting Act* (R.S.C. 1970, C.B-11)
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	The Honourable Pierre Juneau, P.C., O.C.
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	743	691	639	596
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	33	33	33	33
Equity of Canada	458	413	381	353
Cash from Canada in the period				
— budgetary	857	905	815	744
— non-budgetary	nil	nil	nil	nil

CANADIAN BROADCASTING CORPORATION

AUDITOR'S REPORT

TO THE CANADIAN BROADCASTING CORPORATION
AND
THE MINISTER OF COMMUNICATIONS

I have examined the balance sheet of the Canadian Broadcasting Corporation as at March 31, 1986 and the statements of income and expense and operating parliamentary appropriations, proprietor's equity account and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances, except as explained in the following paragraph.

As outlined in Note 13 to the financial statements, the serious problems experienced by the Corporation during the implementation of phase one of the National Finance System resulted in the Corporation being unable to maintain adequate accounting records and internal control. Because of the nature and extent of these problems and the abnormally large volume of accounting entries that had to be processed through the newly introduced system, I was unable to complete my audit.

In view of the possible material effects on the financial statements of the matters discussed in the preceding paragraph, I am unable to express an opinion as to whether these financial statements are presented fairly in accordance with generally accepted accounting principles.

Further, as mentioned above and outlined in Note 13 to the financial statements, because of difficulties experienced during the implementation of phase one of the National Finance System, in my opinion, the Corporation did not maintain proper books of account from which these financial statements have been prepared.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
August 19, 1986

BALANCE SHEET AS AT MARCH 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Current		
Cash	20,515	10,433
Accounts receivable	70,494	52,911
Due from Government of Canada	479	10,797
Engineering and production supplies	11,657	11,803
Programs completed and in process of production	79,865	51,334
Prepaid film and script rights and other expenses	21,740	30,981
	204,750	168,259
Investments (Note 3)	4,521	5,588
Fixed (Note 4)	533,524	516,962
	742,795	690,809

LIABILITIES	1986	1985
Current		
Accounts payable and accrued liabilities	119,493	116,179
Accrued vacation pay	40,741	39,379
Refundable balance of parliamentary appropriations—Capital (Note 5)	373	352
	160,607	155,910
Long-term		
Provision for employee termination benefits	90,802	88,860
Advances from Government of Canada (Note 6)	33,000	33,000
Obligations under capital leases (Note 7)	311	504
	124,113	122,364
	284,720	278,274
EQUITY OF CANADA		
Proprietor's Equity Account	458,075	412,535
	742,795	690,809

The accompanying notes are an integral part of the financial statements.

Accepted on behalf of the Board of Directors:*

PIERRE JUNEAU
Director

MICHEL VENNAT
Director

S. COTSMAN
Vice-President, Finance

* The Directors note that during the 1985-86 financial year serious problems experienced by the Corporation in the design and implementation of phase 1 of the national finance system resulted in inadequate accounting records and internal control. To the best of their knowledge, these financial statements present as fairly as possible in the circumstances the financial position of the Corporation as of March 31, 1986 and the result of its operations and the changes in its financial position for the year then ended. The Directors have accepted the accounts and financial statements subject to those qualifications and adopted measures to correct the problems.

CANADIAN BROADCASTING CORPORATION—*Continued*

STATEMENT OF INCOME AND EXPENSE AND OPERATING PARLIAMENTARY APPROPRIATIONS FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Expense		
National Broadcasting Service, program and distribution costs	922,477	962,357
Radio Canada International, broadcasting service	16,083	16,679
Host broadcasting function—Papal visit		9,013
Total broadcasting services	938,560	988,049
Corporate engineering services	9,111	9,562
Corporate management and services	55,705	55,070
Commissions to agencies and networks	31,156	30,170
Selling expenses	17,781	17,721
	1,052,313	1,100,572
Income		
Advertising	218,390	212,287
Miscellaneous	23,090	16,176
Parliamentary operating appropriations	789,638	808,450
	1,031,118	1,036,913
Excess of expense over income	21,195	63,659
Add: program inventory costs funded from current operating funds	15,682	
Deduct: expenses not requiring current operating funds (Note 5)	53,036	47,960
Current year surplus (deficit)	16,159	(15,699)
Surplus (deficit) carried over, beginning of the year	(9,851)	5,848
Surplus (deficit), end of the year	6,308	(9,851)

The accompanying notes are an integral part of the financial statements.

STATEMENT OF PROPRIETOR'S EQUITY ACCOUNT FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Balance, beginning of the year	412,535	380,505
Add (Deduct): parliamentary appropriations—Capital—Net (Note 5)	64,836	91,519
parliamentary appropriations—Working capital (Note 5)	2,500	4,700
loss on disposal of fixed assets	(601)	(530)
current year surplus (deficit)	16,159	(15,699)
program inventory costs funded from current operating funds	15,682	
expenses not requiring current operating funds (Note 5)	(53,036)	(47,960)
Balance, end of the year	458,075	412,535

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Funds provided		
Parliamentary appropriations		
Operating	789,638	799,458
Capital	65,209	91,777
Working capital	2,500	4,700
Host broadcasting function—Papal visit		8,992
	857,347	904,927
Advertising income	218,390	212,287
Miscellaneous income	23,090	16,176
Investments	1,067	744
Disposal of fixed assets	343	3,059
	1,100,237	1,137,193
Funds applied		
Operating expense	1,052,313	1,100,572
Deduct: items not requiring an outlay of funds depreciation and amortization	47,383	43,672
provision for employee termination benefits	1,942	1,472
	1,002,988	1,055,428
Additions to fixed assets	65,082	94,578
Unexpended capital vote refundable	373	258
	1,068,443	1,150,264
Increase (decrease) in working capital	31,794	(13,071)
Working capital, beginning of the year	12,349	25,420
Working capital, end of the year	44,143	12,349

The accompanying notes are an integral part of the financial statements.

CANADIAN BROADCASTING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986

1. Authority and objective

The Canadian Broadcasting Corporation was established by the 1936, 1958 and 1968 Broadcasting Acts. The Corporation is an agent of Her Majesty and all property acquired by the Corporation is the property of Her Majesty.

The objective of the Corporation is to develop and provide a national broadcasting service for all Canadians in both official languages, in television and radio, and to provide an international service. Both services should be primarily Canadian in content and character.

2. Significant accounting policies

The financial statements of the Corporation have been prepared by management in accordance with generally accepted accounting principles, consistently applied except for the determination of indirect costs to inventory. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Engineering and production supplies

The inventory of engineering and production supplies is stated at the lower of average cost and replacement cost.

(b) Programs completed and in process of production

The inventory of programs completed and in process of production is stated at cost. Cost includes the cost of goods and services, and the share of labour and overhead expenses applicable to each program. The total program cost is charged to operations upon broadcast or when programs are determined unusable.

(c) Film rights

The Corporation enters into contracts for film broadcasting rights. As payments are made under the terms of each contract they are reflected in the accounts as prepaid film rights. The film rights are charged to operations as the films are broadcast or determined unusable.

(d) Investments

The investment in a joint venture is accounted for by the equity method with the Corporation's share of profit or loss credited or charged to operations. Other investments are carried at cost.

(e) Fixed assets

Fixed assets are recorded at cost. Cost includes material, engineering services, direct labour and related overhead. Depreciation is calculated on the straight-line method based on the estimated useful life of the assets, as follows:

Buildings	33 years
Technical equipment	
Transmitters and towers	20 years
Other	10 years
Furnishings and office equipment	10 years
Automotive	5 years

Major leasehold improvements are capitalized and amortized over the term of the lease to a maximum period of five years. Amounts included in uncompleted capital projects are transferred to the appropriate fixed asset classification upon completion, and are then depreciated according to the Corporation's policy. Gains and losses on disposals of fixed assets are credited or charged to the Proprietor's Equity Account.

(f) Capital leases

The assets and related obligations for capital leases are recorded at an amount equal to the present value of future lease payments. Assets recorded under capital leases are amortized on the straight-line method over the estimated useful life of the assets or based on the lease term as appropriate. Obligations under capital leases are reduced by rental payments net of imputed interest.

(g) Employee termination benefits and vacation pay

Employee termination benefits and vacation pay are expensed as benefits accrue to employees under their respective terms of employment.

(h) Pension plan

The cost of funding current service pension benefits is charged to operations as incurred. Unfunded liabilities as determined by actuarial valuation are funded by payments which are charged to operations over periods recommended by the actuaries and in accordance with regulatory requirements. Additional payments are charged to operations as made.

(i) Parliamentary appropriations

Parliamentary appropriations for operating expenditures are recorded as income. Net parliamentary appropriations for capital and working capital are credited to the Proprietor's Equity Account.

3. Investments

	1986	1985
	(in thousands of dollars)	
"Hockey Night in Canada"—Joint venture, at equity	4,309	5,376
Télévision St. François Inc.—Preferred shares, at cost	210	210
Master FM Limited—Common shares, at cost	2	2
	4,521	5,588

4. Fixed assets

	1986			1985
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
	(in thousands of dollars)			
Land	35,244		35,244	35,082
Buildings	241,292	94,669	146,623	140,432
Technical equipment	566,219	281,111	285,108	266,210
Furnishings and office equipment	26,377	9,658	16,719	13,411
Automotive	11,062	7,847	3,215	2,958
Leasehold improvements	5,397	2,105	3,292	4,016
Property under capital leases	699	291	408	566
Uncompleted capital projects	42,915		42,915	54,287
	929,205	395,681	533,524	516,962

CANADIAN BROADCASTING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Continued*

5. Parliamentary appropriations

	Host Broadcasting Function—Papal Visit	Operating	Capital	Working Capital	Total
	(in thousands of dollars)				
Payments to the Corporation in providing a broadcasting service		789,638	65,209	2,500	857,347
Refundable to Government of Canada			373		373
Proceeds retained —1986		789,638	64,836	2,500	856,974
—1985	8,992	799,458	91,519	4,700	904,669

The following expenses do not require current operating funds.

	1986	1985
	(in thousands of dollars)	
Depreciation and amortization	47,383	43,672
Provision for employee termination benefits and vacation pay	5,653	4,288
	53,036	47,960

6. Advances from Government of Canada

Advances from the Government of Canada are made for working capital purposes and are free of interest. These advances become repayable when cash and treasury bills exceed the Corporation's requirements for working capital.

7. Lease obligations

As at March 31, 1986, the Corporation's obligations related to significant capital and operating leases for terms in excess of one year are as follows:

	Capital Leases	Operating Leases
	(in thousands of dollars)	
1987	163	37,053
1988	135	34,077
1989	80	29,874
1990	29	28,001
1991		17,155
1992-2061		8,262
Total future payments	407	154,422
Deduct: amount representing interest	96	
Long-term obligations under capital leases	311	

8. Commitments

As at March 31, 1986, commitments for film rights amounted to $36.7 million (1985—$27.0 million).

9. Pension plan

The Corporation's pension plan covers substantially all continuing employees. The charge to operations for the cost of the plan for the year ended March 31, 1986 was $38.9 million (1985—$38.2 million). As at March 31, 1986, the present value of the estimated unfunded liabilities was $118.8 million based on the actuarial valuation at December 31, 1983.

In accordance with the regulations of the Pension Benefits Standards Act, the Corporation is liquidating the unfunded liability over a period ending December 31, 2006.

10. Contingencies

In the ordinary course of business, various claims and lawsuits have been brought against the Corporation. In the opinion of management, the losses, if any, which may result from the settlement of these matters are not likely to be material and accordingly no provision has been made in the accounts of the Corporation.

11. Income tax

The Corporation is a prescribed Federal Crown corporation under Part LXXI of the Income Tax Regulations and is subject to the provisions of the federal Income Tax Act. However, the Corporation has incurred losses for income tax purposes in prior years, which were applied against the taxable income of the current year.

As at March 31, 1986, the loss carry-forward for income tax purposes is $3.0 million, which, if unused, would expire on March 31, 1992.

12. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations and is mainly financed by Parliament of Canada. Transactions with Canada are outlined in Notes 5 and 6.

During the year, transactions with these related departments, agencies and Crown corporations were normal business transactions on normal trade terms applicable to all individuals and enterprises.

13. New National Finance System

As part of its commitment to improve the management information function, the Corporation initiated the development of the National Finance System (NFS) the objectives of which are to integrate the financial management and reporting functions across the CBC. The NFS is a very complex, fully integrated accounting and management information system which was designed to include nine different modules, each one addressing a major financial management aspect of the operations. The Corporation's plan was to introduce these modules in three phases over the years, starting with phase one in 1985-86. The three modules included in phase one are (1) the general ledger, (2) budgetary control and (3) accounts payable and purchase order control.

In proceeding with the implementation of phase one during 1985-86, the Corporation continued to operate and rely on the accuracy of the sub-systems that were not affected by this major initiative. The national payroll, the performers' payroll and the revenue systems are the most important of these sub-systems.

CANADIAN BROADCASTING CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

Unfortunately, a number of very serious difficulties have been experienced in the implementation of phase one and in the maintenance of proper books of account during the transition period. As a result, an unexpectedly large volume of accounting entries have been recorded in special accounts that required detailed analyses and corrections before proper accounting could be achieved. As a consequence, the Corporation has not been able to maintain the proper degree of internal control it had planned for, nor has the NFS been able to produce regular, timely and reliable financial information and reports.

In light of these difficulties, the Corporation decided in mid-1985 to stop all further development activities of the six remaining modules included in phases two and three of the project until it becomes entirely satisfied that the first three modules are functioning as intended. In January 1986, management initiated a number of measures designed to ensure all the transactions were legitimate, appropriate and recorded properly. Management believes that in the circumstances these financial statements constitute the best representation of the financial situation of the Corporation.

14. Change in accounting policy—Revised method of cost allocation for indirect program production labour and overhead expense

Commencing with the beginning of the 1985-86 fiscal year, the Corporation as part of its new National Finance System modified its method of accounting with respect to the allocation of the indirect program production labour and overhead expense to programs produced and transmitted. These costs are now allocated on the basis of a rate for each production centre, equal to the ratio of total direct to total indirect program costs, in lieu of bases employed in the preceding year. The changed basis has been applied prospectively effective April 1, 1985 for both television and radio.

To provide for greater consistency and uniformity, radio production labour and overhead are now accounted for on the same basis as television. This change has the effect of allocating a $4.5 million increase to radio program inventory on the balance sheet, with a corresponding decrease in radio program broadcast on the statement of income and expense.

The impact of this change of accounting policy on this year's financial statements and on the 1985 comparative figures cannot be determined because of the discontinuance of the previous accounting systems.

SUMMARY PAGE

CANADIAN COMMERCIAL CORPORATION

MANDATE

To assist in the development of trade between Canada and other nations.

BACKGROUND

Established in 1946, the Corporation serves as prime contractor when other countries wish to purchase goods and services from Canada on a government to government basis. As well, it assists in sales to international agencies.

CORPORATION DATA

HEAD OFFICE	50 O'Connor Street Metropolitan Life Building Ottawa, Ontario K1A 0S6
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Right Honourable Joe Clark, P.C., M.P.
DEPARTMENT	External Affairs
DATE AND MEANS OF INCORPORATION	May 1, 1946; by the *Canadian Commercial Corporation Act* (R.S.C. 1970, C. C-6).
CHIEF EXECUTIVE OFFICER	Hugh Mullington
CHAIRMAN	Vacant
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	399.5	380.9	382.5	367.8
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	35.7	36.3	32.4	28.6
Cash from Canada in the period				
— budgetary	15.8	17.6	17.2	16.8
— non-budgetary	nil	nil	nil	nil

CANADIAN COMMERCIAL CORPORATION

AUDITOR'S REPORT

THE RIGHT HONOURABLE CHARLES JOSEPH CLARK, P.C., M.P.
SECRETARY OF STATE FOR EXTERNAL AFFAIRS

I have examined the balance sheet of the Canadian Commercial Corporation as at March 31, 1986 and the statements of operations and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canadian Commercial Corporation Act and by-laws of the Corporation.

D. L. Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 30, 1986

BALANCE SHEET AS AT MARCH 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Cash and short-term deposits	58,853	28,476
Deposit with Receiver General for Canada (Note 1)	8,000	8,000
Accounts receivable		
Foreign governments (Note 3)	117,228	148,805
Government of Canada—Parliamentary appropriations (Note 4)	1,089	1,530
Other	229	141
Advances to suppliers	10,284	3,413
Progress claims paid or due	203,773	190,505
	399,456	380,870

LIABILITIES	1986	1985
Accounts payable and accrued liabilities	121,991	133,480
Advances from customers	32,691	18,538
Progress payments received or due	202,395	189,135
Due to Government of Canada (Note 4)	3,525	1,443
Due to Defence Production Revolving Fund	539	1,417
Provision for additional contract costs (Note 5)	2,660	525
	363,801	344,538
EQUITY OF CANADA		
Paid in capital	10,000	10,000
Contributed surplus	10,000	10,000
Retained earnings	15,655	16,332
	35,655	36,332
	399,456	380,870

Certified correct:

F. O. KELLY
Comptroller

Approved by the Board:

H. J. MULLINGTON
President

JEAN-GUY CARRIER
Director

DAVID L. INGRAM
Director

CANADIAN COMMERCIAL CORPORATION—*Continued*

STATEMENT OF OPERATIONS AND RETAINED EARNINGS FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Revenues		
Contract billings	763,453	716,278
Fees and other income	12	221
Interest income	3,580	3,022
Gain on foreign exchange	405	1,051
	767,450	720,572
Expenses		
Cost of contract billings	763,453	716,278
Additional contract costs	2,119	341
Bad debts	10	
Services provided by Supply and Services Canada	16,050	15,488
Administrative	2,029	1,773
Legal fees and expenses charged by Department of Justice (Note 6)	272	356
Other	20	48
	783,953	734,284
Net cost of operations	16,503	13,712
Parliamentary appropriations	15,826	17,617
	(677)	3,905
Retained earnings at beginning of the year	16,332	12,427
Retained earnings at end of the year	15,655	16,332

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Financing Activities		
Parliamentary appropriations		
Amount drawn down	15,826	17,617
Adjusted for decrease in receivable from Government of Canada	441	83
	16,267	17,700
Operating Activities		
Operations		
Net cost of operations	16,503	13,712
Adjustments for		
Operating balances from customers and to suppliers	(23,339)	14,026
Advances and progress claims from customers and to suppliers	(7,274)	(3,947)
Total cash used (provided)	(14,110)	23,791
Increase (decrease) in cash and cash equivalents	30,377	(6,091)
Cash and cash equivalents at beginning of year	36,476	42,567
Cash and cash equivalents at end of year	66,853	36,476
Represented by		
Cash and short-term deposits	58,853	28,476
Deposit with Receiver General for Canada	8,000	8,000
	66,853	36,476

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1986

1. Authority and operations

The Corporation was established in 1946 by the Canadian Commercial Corporation Act and is an agency Crown corporation listed in Part I, Schedule C of the Financial Administration Act. The Corporation is not subject to income taxes.

The Corporation acts as the prime contracting agency when other countries and international agencies wish to purchase products and services from Canada on a government-to-government basis.

Contracts are made with foreign governments and corresponding contracts are entered into with Canadian firms by the Corporation.

Supply and Services Canada provides contracting services to the Corporation at predetermined rates approved by Treasury Board, based on the amounts of contracts procured, and provides certain administrative functions at cost.

If the Minister so directs, the Corporation is required to pay to the Receiver General for Canada any funds that the Minister considers to be in excess of requirements. Any such payments are on deposit with the Receiver General for Canada and can, on the request and in the opinion of the Minister, be returned to the Corporation when required. During 1983-84, an amount of $8 million was paid by the Corporation to the Receiver General for Canada and no interest will accrue to the Corporation on such deposit.

2. Significant accounting policies

(a) Contract billings

Revenues from contracts are recorded at the time of delivery except in the case of contracts involving progress payments; in these cases, revenues are recorded at the time the progress payments become due from customers. Since title to work-in-progress covered by progress claims has not passed to customers, the Corporation sets up a corresponding liability and cost of contract billings. The Corporation records all progress claims by its suppliers as assets. These assets and liabilities are reduced, in accordance with contract terms, as deliveries are accepted.

(b) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Revenues and expenses are translated at the average exchange rates for the month in which the transactions occur. Gains and losses resulting from translations are shown in the statement of operations.

(c) Parliamentary appropriations

Parliamentary appropriations are recorded in the year in which the corresponding expenses are incurred but are drawn upon only as cash disbursements are made.

(d) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. These contributions represent the total obligation of the Corporation and are charged to income on a current basis.

3. Accounts receivable from foreign governments

As at March 31, 1986, the Corporation has provided $854,000 (1985—$844,000) to cover the possible non-collection of certain accounts receivable from a foreign government.

4. Government of Canada

As at March 31, 1986, funds to cover expenses of $1,089,000 applicable to 1985-86 appropriations had not been drawn and $3,525,000 had not been paid to various government departments.

5. Contractual obligations

As at March 31, 1986, the Corporation was obligated to fulfill contracts with customers amounting to $1,127 million (1985—$911 million).

CANADIAN COMMERCIAL CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

The Corporation is responsible to its customers for the performance of its suppliers and thus may incur additional contract costs on default of a supplier. A provision of $2,660,000 (1985—$525,000) has been made for estimated additional contract costs which may be incurred if certain suppliers are unable to meet their contractual obligations.

6. Legal fees and expenses charged by Department of Justice

The Corporation has been directed by Treasury Board to reimburse the Department of Justice for legal fees and expenses resulting from the action taken against the Corporation related to the contract referred to in Note 7(a). These costs amounted to $272,000 (1985—$356,000).

7. Contingencies

(a) The Corporation has been named defendant in a lawsuit instituted in 1975 alleging losses resulting from the termination of a portion of a contract and seeking damages of $6.8 million plus accrued interest and costs. Based on the advice of legal counsel, management is of the opinion that no provision for possible loss in respect of this suit is required.

(b) The Corporation has been named as defendant in legal proceedings instituted in 1985, alleging losses resulting from a breach of contract by the Corporation and seeking damages of $744,000. The action is being contested by the Corporation and the ultimate outcome is uncertain. A preliminary review of the facts and law by counsel indicates that there is no liability on the part of the Corporation. On the basis of that opinion, management is of the view that no provision for possible loss in respect to these proceedings is required.

8. Representative agreements

The Corporation had a representative agreement with Luis Kafie & CIA SA of Honduras to whom fees of $3,815 were paid during the year (1985—none).

Another representative agreement is in effect with Dismatica Industrial C.A. of Venezuela, to whom no fees were paid or became due during the year.

9. Subsequent event

As of April 1, 1986, the Corporation has accepted 93 employees from Supply and Services Canada with accrued annual leave of $207,000 and termination benefits of $620,000.

SUMMARY PAGE

CANADIAN DAIRY COMMISSION

MANDATE

To provide efficient producers of milk and cream with an opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

BACKGROUND

Established in 1966, the Corporation administers the following elements of the federal dairy program: calculation of Target Price for manufacturing milk and cream; market support for the Target Price through a nationwide offer to purchase butter and skim milk powder; payment of subsidy on eligible milk and cream shipments; international marketing of dairy products not required for domestic consumption; receipt of levies collected by provinces from farmers to finance the cost of exporting products surplus to domestic requirements; and coordination of national supply management of industrial milk production.

CORPORATION DATA

HEAD OFFICE	Pebb Building 2197 Riverside Drive Ottawa, Ontario, K1A 0Z2
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Wise, P.C., M.P.
DEPARTMENT	Agriculture
DATE AND MEANS OF INCORPORATION	In 1966, by the *Canadian Dairy Commission Act* (R.S.C. 1970, C. C-7).
CHIEF EXECUTIVE OFFICER AND CHAIRMAN	Roch Morin
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends July 31.

	1984-85	1983-84	1982-83	1981-82
At the end of the period				
Total Assets	333.6	304.0	360.5	296.1
Obligations to the private sector	58.2	60.6	56.5	50.2
Obligations to Canada	234.3	180.4	231.8	206.9
Equity of Canada	nil	nil	nil	nil
Cash from Canada in the period				
— budgetary*	314.4	303.6	309.9	302.4
— non-budgetary, net	53.9	(51.3)	24.9	101.5

* Includes payments via Agricultural Stabilization Board.

CANADIAN DAIRY COMMISSION

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 31, 1986
WERE NOT AVAILABLE AT DATE OF PRINTING

CANADIAN DAIRY COMMISSION—*Continued*

AUDITOR'S REPORT

THE HONOURABLE JOHN WISE, P.C., M.P.
MINISTER OF AGRICULTURE

I have examined the balance sheet of the Canadian Dairy Commission as at July 31, 1985 and the statements of dairy support program operations financed by Government of Canada and marketing operations and deficit financed by producers for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Commission as at July 31, 1985 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and regulations, the Canadian Dairy Commission Act and the by-laws of the Commission.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
December 3, 1985

BALANCE SHEET AS AT JULY 31, 1985
(in thousands of dollars)

ASSETS	1985	1984	LIABILITIES	1985	1984
Accounts receivable			Accounts payable and accrued liabilities	28,827	61,037
Trade	23,688	40,911	Allowance for losses on commitments (Note 4)	7,972	13,561
Government of Canada	81,981	73,632	Subsidies payable to producers	58,164	60,472
Producer levies	107,515	59,395	Loans from Government of Canada (Note 5)	238,599	182,516
Inventories (Note 3)	119,996	128,614		333,562	317,586
Prepaid expense	382	1,453			
			DEFICIT		
			Deficit		(13,581)
	333,562	304,005		333,562	304,005

Approved:

G. CHOQUETTE
Chairman

E. G. HODGINS
Vice-Chairman

PAUL SIMARD
Director of Finance

CANADIAN DAIRY COMMISSION—*Continued*

STATEMENT OF DAIRY SUPPORT PROGRAM OPERATIONS FINANCED BY GOVERNMENT OF CANADA FOR THE YEAR ENDED JULY 31, 1985
(in thousands of dollars)

	1985	1984
Subsidies to producers of industrial milk and cream (Schedule A)	283,612	276,951
Expenses related to marketing operations		
Interest	18,267	11,940
Freight	3,264	4,130
Storage	3,122	3,174
Handling	484	999
Miscellaneous	277	357
	25,414	20,600
Administrative expenses (Schedule B)	3,668	4,267
Research	1,661	1,699
Cost of dairy support program operations	314,355	303,517
Financing by Government of Canada (Note 6)		
Agricultural Stabilization Board	309,026	297,551
Parliamentary appropriation	5,177	5,702
Government departments which provided services without charge	152	264
	314,355	303,517

STATEMENT OF MARKETING OPERATIONS AND DEFICIT FINANCED BY PRODUCERS FOR THE YEAR ENDED JULY 31, 1985
(in thousands of dollars)

	1985	1984
Sales	338,916	320,290
Cost of goods sold	578,766	553,416
Loss on sales	239,850	233,126
Expenses and assistance		
Dairy product assistance	37,855	22,729
Carrying charges	10,554	8,184
Agents' commissions (Note 7)	5,690	4,478
Provision for doubtful accounts	2,300	
Donation to Ethiopia	290	
Capital assistance recoveries (Note 8)	(978)	(747)
Advertising and promotion		2,724
Capital assistance (Note 8)		571
	55,711	37,939
Cost of marketing operations before financing	295,561	271,065
Financing by Producers' levies (Note 6)		
Industrial milk (Schedule C)	274,720	233,418
Fluid milk (Schedule D)	7,497	6,883
	282,217	240,301
Government of Canada (Note 9)	2,564	10,050
	284,781	250,351
Deficiency of financing over cost of marketing operations (Schedule E)	10,780	20,714
Deficit (surplus) at beginning of year	13,581	(7,133)
	24,361	13,581
Deficit recoverable from producers	24,361	
Deficit at end of year		13,581

NOTES TO FINANCIAL STATEMENTS JULY 31, 1985

1. The Commission

The Canadian Dairy Commission is a Crown corporation named in Schedule C, Part I of the Financial Administration Act and is not subject to the provisions of the Income Tax Act. The objectives of the Commission, as established by the Canadian Dairy Commission Act 1966-67, are "to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality".

2. Significant accounting policies

Foreign currency translation

Each asset, liability, revenue or expense arising from a foreign currency transaction is translated into Canadian dollars at the exchange rate in effect at the date of transaction. Monetary items denominated in a foreign currency at the balance sheet date are adjusted to reflect the exchange rate in effect at that date. Any exchange loss or gain, arising on translation or settlement of a foreign currency item, is charged to marketing operations financed by producers except for unrealized gains and losses arising from the translation of long-term monetary assets which are deferred and amortized over the ascertainable lives of the related items.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Fixed assets

Acquisitions of furniture and equipment are not significant and are charged to administrative expenses in the year of purchase.

Purchase commitments

Losses on commitments to purchase surplus butter and skim milk powder at Canadian support prices and other dairy products at negotiated contract prices, which are usually higher than export prices, are charged to marketing operations financed by producers at the time the commitment is made.

3. Inventories

	1985	1984
	(in thousands of dollars)	
Cost		
Butter	106,559	128,327
Skim milk powder	57,257	51,627
Other dairy products	33,440	14,854
	197,256	194,808
Less allowance for write down		
Butter	23,457	30,080
Skim milk powder	38,798	31,900
Other dairy products	15,005	4,214
	77,260	66,194
	119,996	128,614

Inventories which are carried at cost have been adjusted as the prices for surplus butter, skim milk powder and other dairy products (including evaporated milk, whole milk powder and unsalted butter) on the export market are lower than on the domestic market resulting in net realizable value being less than the Canadian support prices and costs. The provision for inventory write down has been charged to marketing operations (cost of sales) financed by producers.

CANADIAN DAIRY COMMISSION—*Continued*

NOTES TO FINANCIAL STATEMENTS
JULY 31, 1985—*Concluded*

4. Commitments

As at July 31, 1985, the Commission was committed to purchase butter and skim milk powder, produced prior to that date, at Canadian support prices and other dairy products at negotiated contract prices for approximately $11.9 million (1984—$23.4 million). Losses which may result from these purchases at higher than export prices have been estimated at approximately $7.9 million (1984—$13.6 million) requiring a decrease in the allowance during the year of approximately $5.6 million (1984—increase $5.7 million) which has been credited and charged, respectively, to cost of goods sold on the statement of marketing operations and deficit financed by producers.

5. Loans from Government of Canada

These loans, to finance the purchase of dairy products, bear interest at rates varying from 9.375% to 12.375% per annum (1984—9.625% to 13.00%). There are no specific terms of repayment and interest, calculated on a simple basis, is paid at the time of any principal repayment.

Loan transactions are summarized as follows:

	1985	1984
	(in thousands of dollars)	
Balance at beginning of year	182,516	231,767
Borrowings	497,236	457,639
Repayments	(445,452)	(508,984)
Accrued interest at end of year	4,299	2,094
Balance at end of year	238,599	182,516

There is a statutory limit of $300 million on borrowings by the Commission from the Government of Canada.

6. Financing

Government of Canada

The Agricultural Stabilization Board, through Vote 15, provides financing to the Commission for the benefit of producers for the purpose of stabilizing the price of industrial milk and cream. During the year ended July 31, 1985, financing for this purpose amounted to $311.6 million, of which $309.0 million was credited to dairy support program operations and $2.6 million (see Note 9) was credited to marketing operations. Administrative and research expenses are financed by Agriculture Vote 45.

Producers

Producers are responsible for the cost of disposal of surplus products, including all losses on special export production under the export quota program, and for marketing costs attributable to surplus production. These costs are financed through producer levies which are charged and collected by the provincial marketing boards and agencies and remitted to the Commission.

Any surplus in marketing operations up to $10 million is not to be refunded to producers or taken into account when setting levy rates for the following year. The treatment of any excess over $10 million is to be determined by the Canadian Milk Supply Management Committee.

Interest expense and carrying charges associated with the purchase of butter and skim milk powder produced in excess of the Canadian requirement of butterfat are financed by producers.

7. Agents' commissions

The Commission has used the services of agents for sales in connection with marketing of dairy products on the export market and commissions were as follows:

	1985	1984
	(in thousands of dollars)	
Coop Fédérée de Québec, Canada	2,401	2,578
L&M Exports Inc., Canada	2,594	943
Intercontinental, Mexico	535	355
Gestion Y. Dessarrollo—Commercial S.A., Peru	146	395
Canada Expa (1980) Inc., Canada	14	184
Gerber Agri-Export, Canada		23
	5,690	4,478

8. Capital assistance

In a program to export whole milk products, up to a maximum of 10% of Canadian requirements or a maximum of 4.4 million hectolitres of milk as agreed by the Canadian Milk Supply Management Committee and Government, the Commission has contributed to the construction of two processing plants for evaporated milk and one processing plant for instantized whole milk powder.

The capital assistance, totalling $22.7 million, commenced in 1980 and was financed by producers. This cost is estimated to be reduced to $17.7 million over a period of six years from 1980 through the recovery of the residual value of the plant and equipment, including a reduction in price for a maximum number of cases to be purchased, and grants from the Government of Canada. Recoveries to date amounted to $3.9 million, (1984—$2.9 million).

9. British Columbia Milk Board

Effective November 1, 1984, the British Columbia Milk Board rejoined the Comprehensive Milk Marketing Plan. During the year ended July 31, 1985, the Board did not remit levies to the Commission for the period August to October 1984. Levies on milk production during this period would have amounted to $2.6 million. An amount of $2.6 million (1984—$10.1 million), equivalent to subsidies which would have been paid by the Government of Canada on milk production in British Columbia, has been credited to marketing operations financed by producers.

10. Financial statement presentation

A statement of changes in financial position has not been included because, in the opinion of management, it would not provide any useful additional information. Certain 1984 items have been reclassified to conform with the presentation adopted in the current year.

CANADIAN DAIRY COMMISSION—*Continued*

SUBSIDIES TO PRODUCERS OF INDUSTRIAL MILK AND CREAM FOR THE YEAR ENDED JULY 31, 1985 — SCHEDULE A

	Eligible Shipments		Subsidies	
	1985	1984	1985	1984
	(in thousands of kilograms)		(in thousands of dollars)	
Prince Edward Island	3,108	3,220	5,206	5,394
Nova Scotia	2,137	2,134	3,578	3,574
New Brunswick	2,257	2,244	3,780	3,758
Quebec	80,962	81,383	135,611	136,316
Ontario	53,729	53,993	89,996	90,438
Manitoba	6,594	6,595	11,044	11,047
Saskatchewan	4,411	4,413	7,388	7,392
Alberta	11,427	11,335	19,140	18,986
British Columbia (Note 9)	6,229	6,027	7,869	46
	170,854	171,344	283,612	276,951

ADMINISTRATIVE EXPENSES FOR THE YEAR ENDED JULY 31, 1985 (in thousands of dollars) — SCHEDULE B

	1985	1984
Salaries	2,031	1,979
Transportation and communications	410	345
Professional and special services	264	731
Other personnel costs	264	287
Remuneration of members of the Commission	191	190
Rentals	183	190
Data processing and cheque issue services	152	264
Acquisition of furniture and equipment	96	163
Utilities, materials and supplies	54	75
Repairs and maintenance	22	41
Miscellaneous	1	2
	3,668	4,267

PRODUCER LEVIES ON INDUSTRIAL MILK FOR THE YEAR ENDED JULY 31, 1985 — SCHEDULE C

	Milk Shipments		Producer Levies					
			In Quota		Over Quota		Total	
	1985	1984	1985	1984	1985	1984	1985	1984
	(in thousands of litres)		(in thousands of dollars)					
Prince Edward Island	75,998	78,355	3,678	4,027			3,678	4,027
Nova Scotia	52,930	52,385	2,977	2,693	468	129	3,445	2,822
New Brunswick	54,905	52,897	3,122	2,719	248		3,370	2,719
Quebec	2,243,797	2,250,749	128,011	115,688	6,686		134,697	115,688
Ontario	1,321,949	1,311,443	74,630	67,408	9,780	10,394	84,410	77,802
Manitoba	153,566	150,858	8,680	7,754	1,070	549	9,750	8,303
Saskatchewan	101,510	100,421	5,775	5,162	444	980	6,219	6,142
Alberta	287,020	280,655	16,232	14,426	1,880		18,112	14,426
British Columbia (Note 9)	175,253	158,479	7,177	118	3,862	1,371	11,039	1,489
	4,466,928	4,436,242	250,282	219,995	24,438	13,423	274,720	233,418

PRODUCER LEVIES ON FLUID MILK FOR THE YEAR ENDED JULY 31, 1985 — SCHEDULE D

	Sales		Producer Levies*	
	1985	1984	1985	1984
	(in thousands of litres)		(in thousands of dollars)	
Prince Edward Island	13,509	13,396	41	40
Nova Scotia	114,916	114,659	347	346
New Brunswick	69,818	70,509	210	213
Quebec	655,236	654,018	1,980	1,917
Ontario	954,071	972,777	2,879	2,986
Manitoba	103,814	103,702	314	315
Saskatchewan	97,876	98,425	293	289
Alberta	253,457	256,175	758	777
British Columbia (Note 9)	303,183	303,509	675	
	2,565,880	2,587,170	7,497	6,883

*Calculated at 5% of subsidy rate of $6.03 per hectolitre of sales.

CANADIAN DAIRY COMMISSION—*Concluded*

MARKETING OPERATIONS FINANCED BY PRODUCERS
FOR THE YEAR ENDED JULY 31, 1985

SCHEDULE E

	1985						1984			
	Domestic	Export					Domestic	Export		
	Butter	Skim Milk Powder	Evaporated Milk	Other Products*	Total	Total	Butter	Skim Milk Powder	Evaporated Milk	Others Products*
	(in thousands of dollars)									
Sales	134,516	71,916	119,931	12,553	338,916	320,290	124,761	77,978	94,236	23,315
Cost of goods sold	131,016	212,028	195,113	29,543	567,700	538,831	119,975	224,972	144,371	49,513
Allowance for inventory write down	(6,623)	6,898	8,845	1,946	11,066	14,585	5,369	7,509	1,719	(12)
	124,393	218,926	203,958	31,489	578,766	553,416	125,344	232,481	146,090	49,501
(Profit) loss on sales	(10,123)	147,010	84,027	18,936	239,850	233,126	583	154,503	51,854	26,186
Expenses and assistance										
Dairy product assistance	335	16,833	93	20,594	37,855	22,729	29	14,762	22	7,916
Carrying charges		1,959	8,176	419	10,554	8,184		2,918	4,463	803
Agents' commissions		651	4,707	332	5,690	4,478		750	3,125	603
Provision for doubtful accounts			1,700	600	2,300					
Donation to Ethiopia			290		290					
Capital assistance recoveries			(495)	(483)	(978)	(747)			(264)	(483)
Advertising and promotion						2,724				2,724
Capital assistance						571			571	
	335	19,443	14,471	21,462	55,711	37,939	29	18,430	7,917	11,563
Cost of marketing operations before financing	(9,788)	166,453	98,498	40,398	295,561	271,065	612	172,933	59,771	37,749
Financing					284,781	250,351				
Deficiency of financing over cost of marketing operations					10,780	20,714				

	Volume (in millions)				Volume (in millions)			
	Kilo-grams	Kilo-grams	Cases	Kilo-grams	Kilo-grams	Kilo-grams	Cases	Kilo-grams
Sales	29.5	75.8	7.1	6.0	28.0	78.2	5.3	10.4
Purchases	23.5	76.9	7.6	6.7	26.6	82.0	5.2	10.0

*Includes whole milk powder and cheese.

SUMMARY PAGE

CANADIAN FILM DEVELOPMENT CORPORATION

MANDATE

To foster and promote the development of a feature film industry in Canada. To administer the Canadian Broadcast Program Development Fund for private sector development of television productions of drama, children's programming and variety, meeting specific standards of Canadian context.

BACKGROUND

The scale of the Corporation's activities has increased since 1981 with the inception of new government programs in support of the domestic television productions industry.

CORPORATION DATA

HEAD OFFICE	National Bank Tower 600 de la Gauchetière Street, West Montreal, Quebec H3B 4L2
STATUS	— not an agent of Her Majesty — exempted from Divisions I to IV of Part XII of the *Financial Administration Act*; subject to Part VIII of this Act as it read immediately before the (1984) repeal thereof.
APPROPRIATE MINISTER	The Honourable Flora MacDonald, P.C., M.P.
DEPARTMENT	Communications
DATE AND MEANS OF INCORPORATION	1967, by *The Canadian Film Development Corporation Act*, (R.S.C. 1970, C.8)
CHIEF EXECUTIVE OFFICER	Peter Pearson
CHAIRMAN	Jean Sirois
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	13.0	12.2	7.9	4.6
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	4.0	4.0
Equity of Canada	10.1	8.2	2.7	0.4
Cash from Canada in the period				
— budgetary	75.9	46.6	16.3	4.5
— non-budgetary, net of repayments	—	(2.7)	negl.	(0.6)

CANADIAN FILM DEVELOPMENT CORPORATION

AUDITOR'S REPORT

THE HONOURABLE MARCEL MASSE, P.C., M.P.
MINISTER OF COMMUNICATIONS

I have examined the balance sheet of the Canadian Film Development Corporation as at March 31, 1986 and the statements of operations, equity of Canada and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation, the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and regulations, the Canadian Film Development Corporation Act and the by-laws of the Corporation.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 10, 1986

BALANCE SHEET AS AT MARCH 31, 1986

ASSETS	1986	1985	LIABILITIES	1986	1985
	$	$		$	$
Current			Current		
Loans to producers			Accounts payable	2,702,054	3,771,564
Feature films	3,023,855	3,205,805	Provision for employee termination benefits	175,500	202,000
Canadian programming	839,600	1,606,284		2,877,554	3,973,564
Parliamentary appropriation receivable (Note 3)	8,186,552	6,329,318	EQUITY OF CANADA		
Accounts receivable	243,767	361,319			
Prepaid expenses	135,513	109,667	Equity of Canada	10,093,723	8,210,012
	12,429,287	11,612,393			
Fixed assets (Note 4)	541,990	571,183			
	12,971,277	12,183,576		12,971,277	12,183,576

Approved by the Board:

EDWARD PRÉVOST
President

Approved by Management:

PETER PEARSON
Executive Director

CANADIAN FILM DEVELOPMENT CORPORATION—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1986

	1986			1985
	Canadian programming	Feature films	Total	Total
	$	$	$	$
Assistance expenses (Note 5)				
English production	44,424,063	1,543,289	45,967,352	27,394,298
French production	20,224,541	1,052,532	21,277,073	13,049,405
Marketing and distribution		3,763,028	3,763,028	2,999,291
Development of the industry		1,387,988	1,387,988	1,771,825
	64,648,604	7,746,837	72,395,441	45,214,819
Revenues				
Interest on loans to producers	141,198	359,259	500,457	670,298
Management fees		30,099	30,099	1,248,688
	141,198	389,358	530,556	1,918,986
Cost of operations before administration expenses	64,507,406	7,357,479	71,864,885	43,295,833
Administration expenses (Note 6)			1,973,711	1,759,093
Cost of operations for the year			73,838,596	45,054,926

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Operating activities		
Cost of operations for the year	(73,838,596)	(45,054,926)
Items not affecting liquidity		
Depreciation	126,246	134,348
Increase in the provision for employee termination benefits	(26,500)	111,970
	(73,738,850)	(44,808,608)
Net change in non liquidity items of working capital related to operations	(977,804)	(1,524,044)
	(74,716,654)	(46,332,652)
Investing activities		
Loans to producers		
Investments	(3,753,500)	(5,831,116)
Reimbursements	4,483,934	5,249,170
Write-offs	218,200	70,636
	948,634	(511,310)
Acquisition of fixed assets	(97,053)	(344,037)
	851,581	(855,347)
Financing activities		
Parliamentary appropriation	75,722,307	46,565,289
Waiver of the obligation to reimburse an amount due to Canada		4,000,000
	75,722,307	50,565,289
Parliamentary appropriation receivable		
Increase for the year	1,857,234	3,377,290
Balance at beginning of the year	6,329,318	2,952,028
Balance at end of the year	8,186,552	6,329,318

STATEMENT OF EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Balance at beginning of the year	8,210,012	2,699,649
Parliamentary appropriation	75,722,307	46,565,289
Waiver of the obligation to reimburse an amount due to Canada		4,000,000
	83,932,319	53,264,938
Cost of operations for the year	73,838,596	45,054,926
Balance at end of the year	10,093,723	8,210,012

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1986

1. Authority and activities

The Corporation was established in 1967 by the Canadian Film Development Corporation Act with the objective of fostering and promoting the development of a feature film industry in Canada. The Corporation has since been charged with the administration of the Canadian Broadcast Program Development Fund, established on July 1, 1983, within the framework of the Broadcasting Strategy for Canada as well as with the management of various new programs established under the National Film and Video Policy of May 1984.

The Corporation is a Crown corporation subject to the provisions of Part VIII of the Financial Administration Act as it read before its repeal and as if it continued to be named in Schedule C of the Act.

2. Significant accounting policies

(a) Liquidity

The financial operations of the Corporation are processed through the Consolidated Revenue Fund of Canada, thus the absence of bank accounts. For the purposes of the statement of changes in financial position, its liquidity consists of a parliamentary appropriation receivable.

(b) Loans to producers

Loans advanced to producers of feature films and Canadian programming are shown on the balance sheet at their face value, less an allowance for losses.

CANADIAN FILM DEVELOPMENT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

(c) Investments

Funds advanced to producers of feature films and Canadian programming, in return for a share in the proceeds from such productions, are expensed as assistance to productions in the year in which the advances are made.

All proceeds, up to the amount of the related investment, are credited to expenses as a reduction of production assistance expenses made during the year. Any amount in excess thereof is accounted for as revenues.

(d) Fixed assets

Fixed assets are recorded at cost.

Depreciation of furniture and equipment is provided for, using the diminishing-balance method, at the annual rate of 20%. Leasehold improvements are amortized, using the straight-line method, based on the terms of the leases.

(e) Parliamentary appropriation

The parliamentary appropriation voted to the Corporation for its objectives comprises a non lapsing amount for the development of a feature film industry and another lapsing amount for the production of Canadian programming. The unlapsed parliamentary appropriation is credited to the Equity of Canada. The admissible unlapsed amount not used at the end of the year is presented on the balance sheet as a parliamentary appropriation receivable.

(f) Employee termination benefits

On termination of employment, employees of the Corporation are entitled to certain benefits provided for under their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

(g) Pension plan

All employees of the Corporation participate in the superannuation plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the plan. This contribution represents the total liability of the Corporation. Contributions in respect of current service and admissible past service are expensed during the year in which payments are made. The terms of payment for past service are set by the applicable purchase conditions in effect, generally over the number of years of service remaining prior to retirement.

3. Parliamentary appropriation receivable

	1986	1985
	$	$
Development of the feature film industry	5,153,899	3,260,028
Canadian programming production	2,056,508	2,275,095
Interim financing to producers and distributors of feature films	976,145	794,195
	8,186,552	6,329,318

4. Fixed assets

	1986			1985
	Cost	Accumulated depreciation	Net	Net
	$	$	$	$
Furniture and equipment	809,484	386,954	422,530	453,541
Leasehold improvements	155,563	36,103	119,460	104,451
Automobile				13,191
	965,047	423,057	541,990	571,183

5. Assistance expenses

	1986			1985
	Canadian programming	Feature films	Total	Total
	$	$	$	$
Investments	64,472,061	6,007,078	70,479,139	43,359,114
Proceeds from investments	(1,398,146)	(1,864,821)	(3,262,967)	(2,014,594)
Loans written-off		218,200	218,200	70,636
Reimbursements of loans previously written-off		(72,628)	(72,628)	(478,776)
	63,073,915	4,287,829	67,361,744	40,936,380
Operating expenses (Note 6)	1,574,689	3,459,008	5,033,697	4,278,439
	64,648,604	7,746,837	72,395,441	45,214,819

6. Operating expenses

	1986	1985
	$	$
Salaries and employee benefits	3,297,920	2,997,573
Rent, taxes, heating and electricity	884,671	686,691
Printing, postage and office expenses	609,165	531,097
Advertising and hospitality	467,913	293,485
Travel	412,153	345,908
Professional services	392,926	379,427
Consultants' fees	373,147	374,500
Telephone and telex	234,511	149,390
Depreciation	126,246	134,348
Relocation expenses	113,010	51,261
Films and subtitling of films	92,726	83,461
Financing costs	3,020	10,391
	7,007,408	6,037,532
Portion applicable to assistance expenses (Note 5)	5,033,697	4,278,439
Portion applicable to administration expenses	1,973,711	1,759,093

7. Commitments

As at March 31, 1986, the Corporation is contractually committed to advance funds totalling $11,606,894 as loans and investments, of which $4,748,838 are for French productions and $6,858,056 are for English productions. Further, it has accepted financing projects that may call for disbursements of approximately $6.3 million of which $1.5 million are for French productions and $4.8 million are for English productions.

The Corporation has entered into long-term leases for the rental of office space and equipment used in its operations. The aggregate minimum annual rentals payable during subsequent years are as follows:

	$
1987	801,865
1988	755,966
1989	771,886
1990	791,108
1991	731,365
1992-96	1,937,311
	5,789,501

8. New government initiative

In the Budget Papers tabled on February 26, 1986, the Minister of Finance announced a new government initiative, to be administered by the Corporation, whereby $33 million will be provided in 1986-87 to support the production and distribution of high quality Canadian feature films in domestic and international markets. Funds, largely through the provision of capital, will be used to support all phases of the production and marketing of Canadian films. As at June 10, 1986, this new program had not yet been officially authorized.

SUMMARY PAGE

CANADIAN INSTITUTE FOR INTERNATIONAL PEACE AND SECURITY

MANDATE
To increase knowledge and understanding of the issues relating to international peace and security from a Canadian perspective, with particular emphasis on arms control, disarmament, defence and conflict resolution.

BACKGROUND
The Corporation was established in 1984 by special Act of Parliament. Under Bill C-69, which received Royal Assent on October 29, 1985, the Corporation was given status, under the *Financial Administration Act*, resembling that of the cultural Crown corporations, being exempt from most provisions of Part XII of the Act. The Corporation is authorized to fulfill its mandate by the following means:
(a) foster, fund and conduct research;
(b) promote scholarship;
(c) study and prepare ideas and policies; and
(d) collect and disseminate information on, and encourage public discussion as they relate to matters of international peace and security.

CORPORATION DATA

HEAD OFFICE	307 Gilmour Street Ottawa, Ontario K2P 0P7
STATUS	— not an agent of Her Majesty — exempt from Divs. I to IV of Part XII of the *FAA* by s. 96(1) of that Act.
APPROPRIATE MINISTER	The Right Honourable Joe Clark, P.C., M.P.
DEPARTMENT	External Affairs
DATE AND MEANS OF INCORPORATION	August 15, 1984; by the *Canadian Institute for International Peace and Security Act*, (S.C. 1983-84, C.37)
CHIEF EXECUTIVE OFFICER	Geoffrey Pearson
CHAIRMAN	William H. Barton
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	6 Months to March 31, 1985
At the end of the period		
Total Assets	1.9	1.3
Obligations to the private sector	nil	nil
Obligations to Canada	nil	nil
Equity of Canada	1.7	1.2
Cash from Canada in the period		
— budgetary	2.5	1.5
— non-budgetary	nil	nil

CANADIAN INSTITUTE FOR INTERNATIONAL PEACE AND SECURITY

AUDITOR'S REPORT

TO THE CANADIAN INSTITUTE FOR INTERNATIONAL PEACE AND SECURITY
AND
TO THE RIGHT HONOURABLE CHARLES JOSEPH CLARK, P.C., M.P.
SECRETARY OF STATE FOR EXTERNAL AFFAIRS

I have examined the balance sheet of the Canadian Institute for International Peace and Security as at March 31, 1986 and the statements of operations and equity of Canada and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Institute as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 12, 1986

BALANCE SHEET AS AT MARCH 31, 1986

ASSETS	1986	1985	LIABILITIES	1986	1985
	$	$		$	$
Current			Current		
Cash and term deposits	1,124,197	224,330	Accounts payable and accrued charges	111,223	96,183
Canada treasury bills	499,789	1,026,247			
Accrued interest	11,692	26,147			
Prepaid expenses	75,896	51,829	EQUITY OF CANADA		
	1,711,574	1,328,553			
Fixed (Note 3)	140,994	3,585	Equity of Canada	1,741,345	1,235,955
	1,852,568	1,332,138		1,852,568	1,332,138

Approved by:

WILLIAM H. BARTON
Chairman of the Board

GEOFFREY A.H. PEARSON
Executive Director

CANADIAN INSTITUTE FOR INTERNATIONAL PEACE AND SECURITY—*Continued*

STATEMENT OF OPERATIONS AND EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31, 1986

	1986 (12 months)	1985 (6 months)
	$	$
Expenses (Schedule)		
Programmes		
Public programmes	683,478	14,200
Research	547,381	28,484
Information systems	117,267	9,509
	1,348,126	52,193
Administration and support		
Administration	544,187	108,049
Executive	195,268	33,276
Board of Directors	132,774	132,704
	872,229	274,029
	2,220,355	326,222
Revenue		
Interest income	225,745	62,177
Net cost of operations	1,994,610	264,045
Parliamentary appropriation	2,500,000	1,500,000
Excess of parliamentary appropriation over net cost of operations	505,390	1,235,955
Equity of Canada at the beginning of the year	1,235,955	
Equity of Canada at the end of the year	1,741,345	1,235,955

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986

	1986 (12 months)	1985 (6 months)
	$	$
Operating Activities		
Cash used by operations		
Net cost of operations	1,994,610	264,045
Item not requiring an outlay of funds		
Depreciation of fixed assets	(35,472)	(897)
	1,959,138	263,148
Accounts payable and accrued charges	(15,040)	(96,183)
Accrued interest	(14,455)	26,147
Prepaid expenses	24,067	51,829
	1,953,710	244,941
Investing Activities		
Acquisition of office furniture, equipment and leasehold improvements	172,881	4,482
Financing Activities		
Parliamentary appropriation	(2,500,000)	(1,500,000)
Increase during the year	373,409	1,250,577
Balance at the beginning of the year	1,250,577	
Balance at the end of the year	1,623,986	1,250,577

The balance includes cash, term deposits and Canada treasury bills.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1986

1. Authority and operations

The Institute was established in June 1984 under the Canadian Institute for International Peace and Security Act and commenced operations on October 1, 1984.

During the year, the Constitutional Act of the Institute was amended by Bill C-69. It is now an exempted Crown corporation and has been removed from Schedule C of the Financial Administration Act. Furthermore, this Bill modified the French version of the Institute from "Institut canadien pour la paix et la sécurité mondiales" to "Institut canadien pour la paix et la sécurité internationales".

The purpose of the Institute is to increase knowledge and understanding of the issues relating to international peace and security from a Canadian perspective with particular emphasis on arms control, disarmament, defence and conflict resolution, and to:

(a) foster, fund and conduct research on matters relating to international peace and security;

(b) promote scholarship in matters relating to international peace and security;

(c) study and propose ideas and policies for the enhancement of international peace and security; and

(d) collect and disseminate information on, and encourage public discussion of, issues of international peace and security.

2. Significant accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles. The main principles followed are:

(a) Fixed assets

Fixed assets are recorded at cost. Office furniture and equipment are depreciated on the straight-line basis at an annual rate of 20%. Leasehold improvements are amortized, using the straight-line method, based on the duration of the lease.

(b) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Institute's contributions are equal to the contributions paid by its employees in respect of current services. These contributions represent the total liability of the Institute in respect of the pension plan and are recorded as expenses in the same period as the employees' services are rendered.

(c) Income taxes

The Institute is exempt from any liability for income taxes.

(d) Parliamentary appropriation

Parliamentary appropriation is recorded in the accounts on an accrual basis. Furthermore, the Act states that the Institute shall be paid from the Consolidated Revenue Fund the following sums:

	$
1986-87	3 million
1987-88	4 million
1988-89	5 million
thereafter	5 million or such greater amount as may be appropriated by Parliament.

(e) Grants

The Institute recognizes its liability for a grant upon the conditions of the agreement being met by the recipient of the grant.

CANADIAN INSTITUTE FOR INTERNATIONAL PEACE AND SECURITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

3. Fixed assets

	1986			1985
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
	$	$	$	$
Office furniture	118,877	24,123	94,754	1,392
Equipment	35,209	7,590	27,619	2,193
Leasehold improvements	23,276	4,655	18,621	
	177,362	36,368	140,994	3,585

4. Commitments

Lease

The Institute entered into a five-year lease agreement for the rental of office premises on May 1, 1985. The Institute can renew the lease agreement for an additional five-year period. The minimum annual rent for the next four years is $120,000.

Grants

The Institute is committed to make payments totalling up to $188,386 during the next fiscal year subject to compliance by recipients with the terms of the agreements.

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED MARCH 31, 1986

	Programmes				Administration and Support					
	Public Programmes	Research	Information Systems	Total	Administration	Executive	Board of Directors	Total	1986 (12 months)	1985 (6 months)
	$	$	$	$	$	$	$	$	$	$
Personnel	149,087	207,229	68,969	425,285	157,910	178,428		336,338	761,623	100,815
Grants	434,017	271,432		705,449					705,449	
Transportation and communications	17,385	16,138	9,837	43,360	52,989	10,469	65,200	128,658	172,018	61,661
Rentals					169,868			169,868	169,868	23,597
Materiel and supplies			28,739	28,739	54,434			54,434	83,173	9,143
Publications	75,140	5,407		80,547					80,547	4,779
Professional and special services	6,961	5,902	9,722	22,585	25,972	6,371	7,389	39,732	62,317	37,551
Directors' fees							60,185	60,185	60,185	84,350
Purchased repair and upkeep					45,527			45,527	45,527	777
Conferences, workshops and seminars	888	41,273		42,161					42,161	
Depreciation of fixed assets					35,472			35,472	35,472	897
Miscellaneous					2,015			2,015	2,015	2,652
	683,478	547,381	117,267	1,348,126	544,187	195,268	132,774	872,229	2,220,355	326,222

SCHEDULE OF GRANTS
FOR THE YEAR ENDED MARCH 31, 1986

	Disbursed	Committed	Total
	$	$	$
Research	271,432	153,686	425,118
Public programmes	434,017	34,700	468,717
	705,449	188,386	893,835

SUMMARY PAGE

CANADIAN LIVESTOCK FEED BOARD

MANDATE

To ensure availability of adequate feed grain to meet the needs of livestock feeders, availability of adequate storage for feed grain in Eastern Canada; reasonable stability in prices for feed grain in Eastern Canada, British Columbia and the Yukon and Northwest Territories; fair equalization of feed grain prices in those regions.

BACKGROUND

Established in 1967, the Board has executed its mandate by subsidizing the transportation costs of feed grain, by paying the carrying charges on local dealer inventories to promote local feed grain security and by administering a program for the construction and expansion of feed grain storage elevators. Its programs are financed by budgetary payments from Canada.

CORPORATION DATA

HEAD OFFICE	Suite 400 5180 Queen Mary Road Montreal, Quebec H3W 3E7
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Charles Mayer, P.C., M.P. Minister of State (Canadian Wheat Board)
DEPARTMENT	Agriculture
DATE AND MEANS OF INCORPORATION	In 1967, pursuant to the *Livestock Feed Assistance Act*, (R.S.C. 1970 C. L-9).
CHIEF EXECUTIVE OFFICER AND CHAIRMAN	Denis Ethier
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	2.5	2.9	2.4	2.6
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	0.5	0.7	0.4	0.6
Cash from Canada in the period				
— budgetary	16.8	18.6	16.7	15.4
— non-budgetary	nil	nil	nil	nil

CANADIAN LIVESTOCK FEED BOARD

AUDITOR'S REPORT

THE HONOURABLE JOHN WISE, P.C., M.P.
MINISTER OF AGRICULTURE
AND THE
CANADIAN LIVESTOCK FEED BOARD

I have examined the balance sheet of the Canadian Livestock Feed Board as at March 31, 1986 and the statements of operations, equity of Canada and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Board as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Board that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Livestock Feed Assistance Act and regulations and the by-laws of the Board.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 4, 1986

BALANCE SHEET AS AT MARCH 31, 1986

ASSETS	1986	1985	LIABILITIES	1986	1985
	$	$		$	$
Current			Current		
Accounts receivable	10,982	18,726	Accounts payable	81,732	112,350
Parliamentary appropriations receivable	1,848,414	2,116,026	Contributions payable	1,806,266	2,037,519
	1,859,396	2,134,752		1,887,998	2,149,869
Amounts recoverable under the new inland elevator construction assistance program (Note 3)	611,207	811,426	Provision for employee termination benefits	108,100	101,809
				1,996,098	2,251,678
			EQUITY OF CANADA		
			Equity of Canada	474,505	694,500
	2,470,603	2,946,178		2,470,603	2,946,178

Approved by Management:

PIERRE MORIN
Director of Finance

Approved by the Board:

DENIS ÉTHIER
Chairman

CANADIAN LIVESTOCK FEED BOARD—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Contributions		
Feed freight assistance	15,430,226	16,547,673
New inland elevator construction assistance (Note 3)	13,000	86,262
Local feed grain security assistance		292,030
	15,443,226	16,925,965
Administrative expenses		
Salaries and employee benefits	903,842	895,467
Rentals	83,449	75,112
Travel	76,760	94,644
Stationery and office supplies	57,750	54,936
Telephone	54,223	57,395
Publication of reports	43,981	32,705
Postage	43,942	38,804
Professional and special services	35,968	36,583
Equipment and office furniture	14,234	36,077
Electricity	9,848	8,152
Advisory committee fees	3,250	3,500
Accounting and cheque issue services	3,000	70,400
Office renovations		11,000
Miscellaneous	7,100	13,298
	1,337,347	1,428,073
Cost of operations for the year	16,780,573	18,354,038

STATEMENT OF EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Balance at beginning of the year	694,500	359,471
Parliamentary appropriations	16,557,578	18,618,667
Services provided without charge by a government department	3,000	70,400
	17,255,078	19,048,538
Cost of operations for the year	16,780,573	18,354,038
Balance at end of the year	474,505	694,500

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Operating activities		
Cost of operations for the year	16,780,573	18,354,038
Items not affecting liquidity		
Provision for losses in respect of amounts recoverable under the new inland elevator construction assistance program	(13,000)	(86,262)
Services provided without charge by a government department	(3,000)	(70,400)
Increase in the provision for employee termination benefits	(6,291)	(2,428)
	16,758,282	18,194,948
Increase (decrease) in accounts receivable	(7,744)	8,941
Decrease (increase) in accounts payable	30,618	(8,496)
Decrease (increase) in contributions payable	231,253	(159,574)
	17,012,409	18,035,819
Financing activities		
Parliamentary appropriations	(16,557,578)	(18,618,667)
Investing activities		
Amounts recovered under the new inland elevator construction assistance program	(187,219)	(37,840)
Parliamentary appropriations receivable		
Increase (decrease) for the year	(267,612)	620,688
Balance at beginning of the year	2,116,026	1,495,338
Balance at end of the year	1,848,414	2,116,026

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1986

1. Authority and objectives

The Board, a Crown corporation named in Part I of Schedule C to the Financial Administration Act, was established in 1967 under the Livestock Feed Assistance Act with the objective of ensuring:

— the availability of feed grain to meet the needs of livestock feeders;

— the availability of adequate storage space in Eastern Canada for feed grain to meet the needs of livestock feeders; and

— reasonable stability in, and fair equalization of, feed grain prices in Eastern Canada, British Columbia, the Yukon Territory and the Northwest Territories.

2. Significant accounting policies

(a) Liquidity

The financial operations of the Board are processed through the Consolidated Revenue Fund of Canada, thus the absence of bank accounts. For the purposes of the statement of changes in financial position, its liquidity consists of parliamentary appropriations receivable or payable.

(b) Contributions

Feed freight assistance is charged to operations in the year in which shipments are made.

Local feed grain security assistance is charged to operations in the year in which admissible costs are incurred by recipients. This program terminated on March 31, 1985.

Write-offs or provisions for losses of amounts recoverable under the new inland elevator construction assistance program are charged to operations in the year in which collection is considered doubtful.

CANADIAN LIVESTOCK FEED BOARD—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

(c) Capital expenditures

Purchases of equipment, office furniture, vehicles and costs of office renovations are expensed in the year of acquisition.

(d) Parliamentary appropriations

Parliamentary appropriations are recorded in the Statement of Equity of Canada for the year to which they apply.

(e) Services provided without charge

An estimated amount for services provided without charge by a government department is included in expenses with an offset to the equity of Canada.

(f) Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided for under their collective agreements and their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

(g) Pension plan

All employees participate in the superannuation plan administered by the Government of Canada. The employees and the Board contribute equally to the cost of the plan. This contribution represents the total liability of the Board. Contributions in respect of current service and of admissible past service are expensed when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement.

3. Amounts recoverable under the new inland elevator construction assistance program

Under the new inland elevator construction assistance program, the Board contributed towards certain construction cost. As at March 31, 1983, all contributions by the Board had been paid to operators of the elevators. These operators are called upon to reimburse, without interest, part of the contributions received. Reimbursements are based on stored quantities from the fourth to the tenth year of operation of the new facility without exceeding 40% of the contribution received.

As at March 31, 1986, the Board estimates that the amounts that will be recovered, net of a provision for losses, total $611,207 ($811,426 as at March 31, 1985). Because of the basis for the calculation of reimbursements, it is not possible to determine the amounts that will be recovered during each applicable year.

SUMMARY PAGE

CANADIAN NATIONAL RAILWAY COMPANY

MANDATE

To operate a national railway system and other transportation and related services, including water transportation, trucking, telecommunications and hotels.

BACKGROUND

The Corporation was created out of more than 200 companies, many of them insolvent; its creation avoided the emergence of a monopoly in railway transport. Its role was to mold a number of railway companies into one strong and commercial-competitive system, serving the entire nation. It was recapitalized in 1937, in 1952 and again in 1978. Since 1976, with the exception of 1982, the Corporation has operated profitably.

CORPORATION DATA

HEAD OFFICE	935 de la Gauchetière Street West Montreal, Quebec H3B2M9
STATUS	—Schedule C, Part II —not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	By the *Canadian National Railway Act* 1919 which was superseded by the 1955 Act of the same name (R.S.C. 1970, Chap. C-10).
CHIEF EXECUTIVE OFFICER AND CHAIRMAN	J. Maurice LeClair
PRESIDENT AND CHIEF OPERATING OFFICER	Ronald E. Lawless
AUDITOR	Coopers and Lybrand, Touche Ross and Co.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985**	1984	1983	1982
At the end of the year				
Total Assets	8,139	7,467	6,790	6,336
Obligations to the private sector	3,217	2,696	2,269	2,314
Obligation to Canada	266	274	283	290
Equity of Canada	3,418	3,324	3,113	2,841
Cash from Canada in the year				
—budgetary*	9	7**	175	173
—non-budgetary	nil	18	102	4

*Does not include payments of a kind made to a general class of recipients.

**1985 data and 1984 budgetary cash exclude CN Marine Inc. data which previously were consolidated within those of CNR.

CANADIAN NATIONAL RAILWAY SYSTEM

AUDITORS' REPORT

TO THE MINISTER OF TRANSPORT

We have examined the consolidated balance sheet of the Canadian National Railway System as at December 31, 1985 and 1984 and the consolidated statements of income, retained earnings and changes in financial position for each of the years in the three year period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the System as at December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1985 in accordance with generally accepted accounting principles applied, except for the change in the method of accounting for foreign exchange translation in the year ended December 31, 1984 as set out in Note 1(h) to the consolidated financial statements, on a consistent basis.

Also, in our opinion, the transactions that have come to our notice in the course of our examination have been within the powers of the System.

Coopers & Lybrand
Chartered Accountants
(For the years ended December 31, 1985, 1984 and 1983)

Touche Ross & Co.
Chartered Accountants
(For the year ended December 31, 1985)

Montreal, Canada
February 24, 1986

CONSOLIDATED BALANCE SHEET DECEMBER 31
(in thousands of dollars)

ASSETS	1985	1984
Current Assets		
Accounts receivable	486,922	427,622
Material and supplies	406,184	390,362
Other current assets	234,849	201,901
	1,127,955	1,019,885
Insurance Fund	9,176	5,612
Investments	380,011	362,121
Properties	6,193,468	5,770,982
Other Assets and Deferred Charges	428,171	308,011
	8,138,781	7,466,611

LIABILITIES		1985		1984
Current Liabilities				
Bank loans and other indebtedness		152,719		91,687
Accounts payable		664,516		645,725
Accrued charges		289,719		261,545
Current portion of long-term debt		223,885		119,773
Other current liabilities		155,732		167,900
		1,486,571		1,286,630
Provision for Insurance		9,176		5,612
Other Liabilities and Deferred Credits		271,891		273,071
Long-Term Debt		2,948,347		2,572,613
Minority Interest in Subsidiary Companies		4,345		4,345
SHAREHOLDER'S EQUITY				
Capital stock of Canadian National Railway Company; 6,523,902 (1984—6,523,902) common shares of no par value authorized, issued and outstanding	2,606,425		2,606,425	
Retained earnings	812,026	3,418,451	717,915	3,324,340
		8,138,781		7,466,611

See accompanying notes to consolidated financial statements.

On behalf of the Board:

J. MAURICE LECLAIR
Director

RONALD E. LAWLESS
Director

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1985	1984	1983
Canadian Rail			
Revenues	3,753,190	3,787,251	3,386,723
Expenses	3,647,658	3,568,384	3,164,910
Income	105,532	218,867	221,813
TerraTransport			
Revenues	25,919	33,365	28,095
Expenses	65,827	67,986	62,737
Loss	(39,908)	(34,621)	(34,642)
Grand Trunk Corporation			
Revenues	551,782	524,035	436,464
Expenses	538,200	512,347	449,335
Income (loss)	13,582	11,688	(12,871)
CN Route			
Revenues	144,681	163,427	169,656
Expenses	187,271	195,365	203,316
Loss	(42,590)	(31,938)	(33,660)
Other Divisions			
CN Communications			
Revenues	303,930	287,786	263,665
Expenses	260,882	255,398	229,503
Income	43,048	32,388	34,162
CN Hotels			
Revenues	129,846	102,186	103,340
Expenses	133,289	107,489	106,252
Loss	(3,443)	(5,303)	(2,912)
CN Exploration			
Revenues	56,730	31,873	24,667
Expenses	26,123	15,973	14,369
Income	30,607	15,900	10,298
CN Real Estate			
Revenues	29,582	30,544	22,701
Expenses	14,885	16,481	12,182
Income	14,697	14,063	10,519
Dockyard and Other Loss	(3,422)	(588)	(270)
Total Other Divisions Income	81,487	56,460	51,797
Total Continuing Operations	118,103	220,456	192,437
CN Marine Inc. Income		21,888	19,803
Income before income taxes and extraordinary item	118,103	242,344	212,240
Income taxes	57,823	117,123	99,290
Income before extraordinary item	60,280	125,221	112,950
Reduction in income taxes on application of prior years' losses	57,359	116,730	99,383
Net income	117,639	241,951	212,333

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1985	1984	1983
Balance, beginning of year	717,915	524,354	354,487
Net income for the year	117,639	241,951	212,333
	835,554	766,305	566,820
Dividend	23,528	48,390	42,466
Balance, end of year	812,026	717,915	524,354

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1985	1984	1983
Cash (indebtedness), beginning of year	(91,687)	58,944	(114,005)
Provided from (used for) operations			
Sources			
Net income for the year	117,639	241,951	212,333
Non-cash charges to income			
Depreciation	282,319	260,950	254,006
Other amortization	498	494	508
Loss (income) of equity investees less dividends	308	(16,207)	731
Loss on disposal of investment	737		
Changes in working capital items*	(73,273)	11,017	183,282
Net proceeds from disposal of assets	39,670	31,874	41,728
Proceeds from sale of investment	1,571		
Other	(12,884)	(26,687)	53,707
	356,585	503,392	746,295
Uses			
Additions to properties	744,475	713,149	714,413
Investments	23,010	19,569	1,623
Unamortized exchange on foreign debt	106,536	209,737	
Working capital of previously consolidated subsidiary		15,855	
Dividend	23,528	48,390	42,466
	897,549	1,006,700	758,502
Net used for operations	(540,964)	(503,308)	(12,207)
Provided from (used in) financing activities			
Issuance of long-term debt	597,060	132,140	124,207
Currency exchange adjustment	119,348	275,164	
Reduction of long-term debt	(236,476)	(72,827)	(40,851)
Issuance of capital stock		18,200	101,800
Net provided from financing activities	479,932	352,677	185,156
Net increase (decrease) in cash during the year	(61,032)	(150,631)	172,949
Cash (indebtedness), end of year	(152,719)	(91,687)	58,944

*Excluding cash, current bank loans and other indebtedness, and current portion of long-term debt.

See accompanying notes to consolidated financial statements.

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Introduction

All references in these Notes to the "Company" refer to Canadian National Railway Company which is wholly-owned by the Government of Canada and, unless the context otherwise requires, its consolidated subsidiaries, and all references to the "System" mean Canadian National Railway Company and its consolidated subsidiaries together with the lines of railway, marine, telecommunications and other property entrusted by the Government of Canada to the Company for management and operation.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiaries except CN Marine Inc. and also include the Company's share of the assets, liabilities, revenues and expenses of CNCP Telecommunications which is accounted for by the proportionate consolidation method; CN's share in the activities of CNCP Telecommunications represents slightly less than 60 per cent of the activities of CN Communications. Also, consistent with the legislation governing the System, the accounts of the Canadian Government Railways entrusted to the Company by the Government of Canada are included in the consolidated financial statements. Since, under Orders in Council issued in December 1984, control of CN Marine Inc. passed to the Government of Canada on January 1, 1985 and as it is intended that ownership thereof be transferred from CN to the Government, that company's accounts were deconsolidated effective January 1, 1984 and CN's investment in it was accounted for by the equity method for the year ended December 31, 1984 and by the cost method since that date.

Investments in companies in which the Company has less than a majority interest are accounted for by the equity method, where appropriate.

(b) Reporting by Division

In presenting the results by division, charges for services performed by one division for another, which are made generally at market value, have not been eliminated. Consolidated net income is not affected by this practice.

(c) Material and Supplies

The inventory is valued at laid down cost based on weighted average cost for ties and rails, latest invoice price for fuel and new materials in stores, and at estimated utility or sales value for usable second hand, obsolete and scrap materials.

(d) Properties

Properties are carried at cost, which, in the case of properties brought into the system on January 1, 1923, is the aggregate of the values then appearing in the books of the railways now comprised in the System, less a write-down of $262.8 million at the time of capital revision in 1937.

Accounting for railway and telecommunications properties is carried out in accordance with rules issued by the Canadian Transport Commission and the Canadian Radio-television and Telecommunications Commission respectively (Canadian properties), and the Interstate Commerce Commission (United States properties). Generally, major additions and replacements are capitalized and interest costs are charged to expense.

The cost of depreciable railway and telecommunications assets retired or disposed of, less salvage, is charged to accumulated depreciation, in accordance with the group plan of depreciation. Other depreciable assets retired or disposed of are accounted for in accordance with the unit plan whereby gains or losses are taken into income as they occur.

The Company follows the successful efforts method of accounting for its oil and gas operations whereby the acquisition costs of oil and gas properties, the costs of successful exploratory wells and the costs of drilling and equipping development wells are capitalized.

(e) Depreciation

Depreciation is calculated at rates sufficient to write off properties over their estimated useful lives, generally on a straight-line basis. For railway and telecommunications properties, rates are authorized by the Canadian Transport Commission, the Canadian Radio-television and Telecommunications Commission and the Interstate Commerce Commission. The rates for significant classes of assets are as follows:

	Annual Rate
Ties	2.89%
Rails	1.87%
Other track material	1.90%
Ballast	2.76%
Road locomotives	5.23%
Freight cars	1.73%-3.18%
Commercial communication systems	6.44%

Hotel properties are depreciated at annual rates of 2% to 10%.

Acquisition costs of oil and gas properties are amortized on a straight-line basis over the term of the lease until such time as they are determined to be productive or judged to be impaired. Acquisition costs of productive properties and costs of successful exploratory drilling and of drilling and equipping development wells are charged against income on the unit-of-production method based upon proven reserves of oil and gas. Exploratory dry hole and acquisition costs judged to be impaired are charged against income in the current period. Other exploratory expenditures are charged against income as incurred.

(f) Transportation Revenues

Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Costs associated with uncompleted movements are generally deferred.

(g) Pensions

Current service costs are charged to operations as they accrue. Past service costs are charged to operations in annual amounts covering principal and interest over varying periods.

The funding payments are determined in accordance with the accrued benefit actuarial cost method.

(h) Foreign Exchange

Effective January 1, 1984, the Company adopted prospectively the Canadian Institute of Chartered Accountants' recommendations for foreign currency translation. The financial statements and information related to periods prior to 1984 have not been restated for this change in accounting principle.

The Company's foreign operations are classified as integrated and are translated and accounted for on the following bases. Current assets (excluding material and supplies), current liabilities and long-term debt are translated at the rates in effect at the balance sheet date, whereas other assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates during the year except for depreciation which is translated at exchange rates prevailing when the related properties were acquired.

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

The Company's own foreign denominated assets and liabilities are accorded similar treatment. Revenues and expenses are translated at rates prevailing at the time of the transactions except for revenues designated as a hedge against repayment of foreign denominated long-term debt which are translated at the hedge rates. Currency gains and losses are reflected in net income for the year, except for unrealized foreign currency gains and losses on long-term debt. In conjunction with its adoption, effective January 1, 1984, of the Canadian Institute of Chartered Accountants' recommendations for foreign currency translation, the Company has designated future U.S. dollar revenue streams as a hedge against the repayment of long-term debt denominated in U.S. dollars, and has thus deferred reflecting the related unrealized foreign currency translation gains and losses in net income until the earlier of the debt repayment or the expiry of the hedge.

(i) Leases

Leases which satisfy the criteria for capital leases and which have been entered into after 1981 have been capitalized. Other leases have been recorded as operating leases.

Note 2: Investments

	Percentage of Voting Interest	December 31 1985	December 31 1984
		(in thousands of dollars)	
Entities accounted for by equity method			
Chicago and Western Indiana Railroad Company	20%	5,735	5,916
CNCP Niagara-Detroit Partnership	50%	23,741	
CN Marine Inc.*	100%		324,682
The Toronto Terminals Railway Company	50%	10,682	10,682
Other		10,793	15,894
		50,951	357,174
Subsidiary company accounted for by cost method			
CN Marine Inc.*	100%	324,136	
Other companies and investments, at cost less provisions for impairment where applicable			
Other		4,924	4,947
Total		380,011	362,121

*Effective January 1, 1985 the Company commenced accounting for this investment on the cost basis in accordance with the Government's assumption of direct control over its operations. The slight reduction in the carrying value was due to a dividend relating to fourth quarter 1984 activities having been received subsequent to December 31, 1984. Legislation required for the final divestiture of this investment has been tabled in Parliament.

Note 3: Properties

	1985 Cost	1985 Accumulated Depreciation	1985 Net	1984 Cost	1984 Accumulated Depreciation	1984 Net
	(in thousands of dollars)					
Canadian Rail	7,755,679	2,766,643	4,989,036	7,284,859	2,687,086	4,597,773
TerraTransport	95,484	52,430	43,054	100,118	54,646	45,472
Grand Trunk Corporation	561,570	153,718	407,852	553,658	150,214	403,444
CN Route	95,284	55,257	40,027	105,630	56,472	49,158
Other Divisions						
CN Communications	708,538	288,916	419,622	709,762	281,943	427,819
CN Hotels	217,059	72,351	144,708	199,035	68,549	130,486
CN Exploration	74,947	12,211	62,736	41,731	5,264	36,467
CN Real Estate	72,750	18,221	54,529	66,261	17,812	48,449
Dockyard and Other	34,572	2,668	31,904	33,529	1,615	31,914
	9,615,883	3,422,415	6,193,468	9,094,583	3,323,601	5,770,982
Amounts included above with respect to Canadian Government Railways entrusted to the Company by the Government of Canada	1,037,108	556,142	480,966	982,132	540,085	442,047

At December 31, 1985 the gross value of assets under capital leases included above was $108.4 million (1984—$51.3 million) and related accumulated amortization thereon amounted to $5.5 million (1984—$4.0 million).

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

Note 4: Long-Term Debt

	Maturity	Currency in which payable	December 31 1985	December 31 1984
			(in thousands of dollars)	
Bonds, Debentures and Notes				
Canadian National 5¾%, 25 Year Bonds (a, b)	Jan. 1, 1985	Canadian		63,211
Canadian National 8⅜%, 10 Year Bonds	Nov. 15, 1986	United States	83,232	83,232
Canadian National 8⅞%, 10 Year Bonds (b)	Mar. 1, 1987	Canadian	46,007	46,157
Canadian National 5%, 27 Year Bonds (a, b)	Oct. 1, 1987	Canadian	95,475	97,433
Canadian National 14⅜%, 10 Year Notes	Dec. 1, 1991	United States	117,817	117,817
Canadian National 11⅜%, 8 Year Notes	June 11, 1993	Canadian	100,000	
Canadian National 12½%, 10 Year Notes	Apr. 15, 1995	Canadian	100,000	
Canadian National 5⅜%, 15 Year Swiss Franc Bonds (c)	Aug. 22, 2000	Canadian	98,617	
Canadian National 9¼%, 20 Year Sinking Fund Debentures	Mar. 15, 1998	United States	115,729	124,631
Canadian National 8⅜%, 25 Year Sinking Fund Debentures	July 1, 2002	United States	90,045	95,342
Canadian National 9.70%, 25 Year Sinking Fund Debentures	July 15, 2004	United States	174,940	174,940
Canadian National 13%, 20 Year Sinking Fund Debentures	Nov. 15, 2004	Canadian	100,000	100,000
Canadian National 12¼%, 20 Year Sinking Fund Debentures	May 1, 2005	Canadian	125,000	
Canadian National 14%, 25 Year Sinking Fund Debentures	Jan. 15, 2006	United States	178,783	178,783
Canadian National 15%, 25 Year Sinking Fund Debentures	June 1, 2006	United States	181,238	181,238
Canadian National 16¼%, 25 Year Sinking Fund Debentures	Mar. 1, 2007	United States	183,053	183,053
Canadian National 14¾%, 30 Year Sinking Fund Debentures	Sept. 1, 2012	United States	247,984	247,984
Canadian National 12%, 30 Year Sinking Fund Debentures	Mar. 15, 2013	United States	122,548	122,548
Buffalo and Lake Huron 5½%, 1st Mortgage Bonds	Perpetual	Sterling	795	795
Buffalo and Lake Huron 5½%, 2nd Mortgage Bonds	Perpetual	Sterling	1,228	1,228
Total Bonds, Debentures and Notes			2,162,491	1,818,392
Government of Canada Loan and Advances (d)				
Government of Canada loan		Canadian	251,565	260,331
Canadian Government Railways advances for working capital		Canadian	14,004	14,075
Total Government of Canada Loan and Advances			265,569	274,406
Other				
Amounts owing under equipment purchase agreements (e)		United States	187,613	160,993
Swiss borrowings (f)		Swiss Francs	64,684	129,158
Syndicated loan (g)		Canadian	42,610	
Capital lease obligations (h)		Various	99,405	42,509
Promissory note 9⅝% (i)		Canadian	1,116	1,423
Income debenture (j)		Canadian	8,065	8,243
Adjustment to current exchange rate (see Note 1(h))			356,277	271,660
Total Other			759,770	613,986
			3,187,830	2,706,784
Less: current portion of long-term debt			223,885	119,773
Other			15,598	14,398
			239,483	134,171
Long-Term Debt			2,948,347	2,572,613

(a) Guaranteed by the Government of Canada.

(b) These bonds are subject to repurchase arrangements.

(c) The Company borrowed $98.6 million at an all-inclusive cost of 11.17% by means of a public bond issue in Switzerland and a currency swap.

(d) $204.7 million of the Government of Canada loan bears interest at 8¾% per annum and is payable in equal semi-annual payments of $13.63 million covering principal and interest to June 30, 1998. The balance is to be repaid in 1986 and has been included in the current portion of long-term debt. The weighted average interest rate on the $204.7 million loan and the advances outstanding at December 31, 1985 and 1984, was approximately 8.2% per annum.

(e) Secured by rolling stock and payable by semi-annual or quarterly instalments over various periods to 1995 at interest rates ranging from 8% to 17¾%. As at December 31, 1985, the principal amounts are payable as U.S. $167.6 million (December 31, 1984—U.S. $153.0 million).

(f) A private placement of 100 million Swiss Francs bearing interest at 5⅛%, repayable on March 16, 1988, which is subject to earlier repayment at the Company's option.

(g) The Company borrowed $42.6 million at an all-inclusive cost of 11.535% by means of a yen syndicated loan and currency swap.

(h) Interest rates for these leases range from approximately 10¾% to 15¾% with expiry dates occurring during the years 1986 through 2004. The imputed interest on these leases amounts to $74.4 million (1984—$44.4 million).

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

(i) Repayable by semi-annual instalments of $218,503, including principal and interest, to August 1, 1988.

(j) Payment of non-cumulative annual interest at 16.55% and repayment of principal during the term and at maturity of the debenture in 2008 is conditional on the annual financial results of one of the Company's operations.

(k) Principal repayments, including sinking fund repayments and repurchase arrangements, on debt outstanding at December 31, 1985, are as follows:

	Year ending December 31
	(in thousands of dollars)
1986	223,885
1987	208,422
1988	164,694
1989	76,707
1990	79,165
1991-1995	975,175
1996-2000	687,980
2001-2005	529,260
2006-2010	139,131
2011-2013	67,118

Note 5: Shareholder's Equity

Retained Earnings

Under its governing legislation, the Company is required to pay to the Receiver General for Canada a dividend equal to 20% of net income for the year or such greater percentage as the Governor in Council may direct. Accordingly, a dividend representing 20% of the net income for the year has been accrued and is included in Other current liabilities.

Note 6: Major Commitments

(a) Leases

(i) The Company's commitments as at December 31, 1985, under leases, excluding those which have been capitalized and for which the lease obligations are recorded as long-term debt (see Note 4), are as follows:

Non-Cancellable Leases

	Capital Leases	Operating Leases
	Year ending December 31	
	(in thousands of dollars)	
1986	46,956	67,520
1987	45,112	64,171
1988	41,918	58,420
1989	33,751	52,318
1990	14,009	31,914
1991-1995	16,093	117,141
1996-2000	3,942	38,038
thereafter	1,326	5,874
Total minimum lease payments	203,107	435,396
Less amount representing imputed interest	45,228	
Present value of net minimum lease payments under capital leases	157,879	

A significant portion of the leases is in respect of railway rolling stock and many of them provide renewal options and an option to purchase the property at fair market value at the end of the lease term.

(ii) Rental expenses under all lease arrangements were:

	1985	1984	1983
	Year ended December 31		
	(in thousands of dollars)		
Total expenses	187,949	197,041	169,328
Expenses under capital leases not included in long-term debt	50,863	49,380	46,899

(iii) Increases in income, assets and liabilities in the consolidated financial statements, which would have arisen if leases entered into prior to 1982 and which satisfied the criteria for capital leases had been capitalized, are as follows:

	1985	1984	1983
	Year ended December 31		
	(in thousands of dollars)		
Net increase in income	10,776	3,036	2,272
Increase in Assets			
Properties			
Leased properties under capital leases	293,865	293,825	295,782
Less accumulated amortization	212,108	193,172	172,959
	81,757	100,653	122,823
Other assets and deferred charges			
Unamortized deferred exchange loss	17,689	23,323	
	99,446	123,976	122,823
Increase in Current Liabilities			
Present value of obligations under capital leases	33,387	33,954	28,500
Increase in Non-Current Liabilities			
Present value of obligations under capital leases	127,180	154,832	186,288
Adjustment to current exchange rate (see Note 1(h))	30,699	31,097	
	157,879	185,929	186,288
Less current portion	33,387	33,954	28,500
	124,492	151,975	157,788

(b) Other

The Company has commitments at December 31, 1985, for capital expenditures of $38.5 million for railway ties and $38.6 million for rolling stock.

Note 7: Subsidies

Revenues include the following subsidies:

	1985	1984	1983
	Year ended December 31		
	(in thousands of dollars)		
Government of Canada			
(a) Payments under the Railway Act paid under authority of that Act and the related Appropriation Act in respect of certain uneconomic operations, services and prescribed rates which railways are required by the Railway Act to maintain	37,151	48,762	205,468
(b) Interim payments to partially offset revenue shortfalls associated with the cost of carrying grain at uneconomic statutory rates		8,660	228,452
(c) Maritime Freight Rates Act and Atlantic Region Freight Assistance Act subsidies	20,460	20,727	17,361
(d) Sundry	6,074	2,433	6,154
Other	167	168	168
	63,852	80,750	457,603

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

Note 8: Pensions

The Company has retirement benefit plans covering substantially all its employees under which they are entitled to benefits at retirement age generally based on compensation and length of service and/or contributions. Annual pension costs were as follows:

Year ended December 31		
1985	1984	1983
(in thousands of dollars)		
139,956	167,156	138,252

In 1985, the Company reviewed the causes of the past excess of charges to operations over funding requirements and revised the amortization schedule to reflect an improved systematic pattern for recognizing past service costs. This revision resulted in a deferral of pension costs to future years, with the deferral in respect of 1985 being $21 million. Also, the effect of the most recent actuarial valuations reduced 1985 pension costs by $58.6 million (1984—$46.4 million, 1983—$47.1 million).

The total amount of past service costs remaining to be charged to operations at December 31, 1985, 1984 and 1983 based on the latest actuarial valuation at the time and adjusted for subsequent changes, aggregate:

	At December 31		
	1985	1984	1983
	(in thousands of dollars)		
Canadian plans	1,528,639	1,480,297	1,415,981
U.S. plans	13,281	13,347	13,682
	1,541,920	1,493,644	1,429,663

The past service costs relating to the Canadian plans at December 31, 1985 will be charged to operations in annual amounts, including principal and interest, as follows:

	Annual Cost (in thousands of dollars)
1986	128,761
1987	128,924
1988	127,365
1989	127,666
1990	128,681
1991	134,913
1992	141,438
1993	124,271
1994	126,703
1995	133,342
1996	134,600
1997	133,783
1998	132,580
1999	135,806
2000	146,774
2001	154,847
2002	163,364
2003	172,349
2004	181,828
2005	191,828
2006	202,379

The major portion of the past service costs relating to the U.S. plans at December 31, 1985 will generally be amortized at an annual rate of $1.7 million including principal and interest to 1993 inclusive.

For the year 1985 funding exceeded the charge to operations by $88.5 million whereas in 1984 and 1983, charges to operations exceeded funding by $36.6 million and $25.4 million respectively. The cumulative excess of charges to operations over funding requirements amounts to $29.7 million (1984—$118.2 million) and is included in Other Liabilities and Deferred Credits.

Note 9: System Interest Expense

	Year ended December 31		
	1985	1984	1983
	(in thousands of dollars)		
Interest			
Total interest on long-term debt	333,574	281,097	274,180
Amortization of foreign exchange on long-term debt*		65,427	
Interest on short-term borrowings	5,381	15,907	7,950
Interest on investments	(2,713)	(13,320)	(13,687)
Total interest (net)	336,242	349,111	268,443

* Pursuant to the hedging of foreign currency long-term debt (Note 1(h)), the reduction of the deferred foreign exchange loss, which in 1985 amounted to $12.8 million, has been shown as a reduction of Canadian Rail revenues.

Note 10: Income Taxes

(a) The Company has timing differences of approximately $310 million which are available to reduce taxable income of future years. Of that amount, about $62 million is due to the excess of the undepreciated capital cost for income tax purposes over the net book value of depreciable assets.

(b) Investment tax credits are also available to reduce future income taxes otherwise payable until the related year of expiry:

Year of Expiry	(in millions of dollars)
1986	35.0
1987	32.0
1988	4.2
1990	25.7
1991	33.6
1992	26.0

The Company is eligible for a refund of 20% of the current year's investment tax credits in respect of qualified expenditures and has recognized the resulting benefit as a reduction of such expenditures.

(c) The Company's provision for income taxes is made up as follows:

	Year ended December 31		
	1985	1984	1983
	(in thousands of dollars)		
Provision for income taxes based on combined basic Canadian federal and provincial tax rate of 48.9% (1984—48.0%, 1983—48.6%)	57,752	116,325	103,149
Increase (decrease) in taxes resulting from			
Non-allowable scientific research expenditures, net of proceeds from sale of related tax credits		5,469	
Refundable investment tax credits		(4,224)	(3,062)
Profit on sale of land	(2,437)	(4,076)	(2,221)
Other	2,508	3,629	1,424
Actual provision for income taxes resulting in an effective tax rate of 49.0% (1984—48.3%, 1983—46.9%)	57,823	117,123	99,290

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

Note 11: Segmented Information

(a) Geographic Areas

Virtually all of the System's operations and assets are within Canada with the exception of Grand Trunk Corporation which operates in the United States.

(b) International Traffic

In addition to the revenue generated by Grand Trunk Corporation, the System derives revenue from traffic originating or terminating on railroads in the United States. In 1985, such revenues approximated $628 million (1984—$662 million, 1983—$581 million).

(c) Identifiable Assets by Division

	December 31		
	1985	1984	1983
	(in thousands of dollars)		
Canadian Rail	6,496,422	5,887,685	4,996,742
TerraTransport	56,906	60,326	57,901
Grand Trunk Corporation	633,296	605,774	591,851
CN Route	76,493	92,513	90,564
Other Divisions			
CN Communications	498,873	502,858	471,750
CN Hotels	179,954	163,682	138,783
CN Exploration	73,401	42,522	31,111
CN Real Estate	81,982	69,140	57,720
Dockyard and Other	41,454	42,111	44,160
CN Marine Inc.*			309,183
Total assets per Consolidated Balance Sheet	8,138,781	7,466,611	6,789,765

(d) Capital Expenditures and Depreciation by Division

	Year ended December 31					
	Capital Expenditures**			Depreciation		
	1985	1984	1983	1985	1984	1983
	(in thousands of dollars)					
Canadian Rail	594,303	597,270	508,690	196,297	184,416	167,556
TerraTransport	3,037	2,912	1,202	5,443	5,237	4,044
Grand Trunk Corporation	20,903	18,231	11,264	13,593	12,772	13,366
CN Route	925	8,223	8,164	5,490	5,741	7,524
Other Divisions						
CN Communications	64,658	54,061	45,631	46,192	42,323	40,679
CN Hotels	20,562	14,728	5,074	6,219	5,725	5,748
CN Exploration	33,283	16,987	15,216	6,994	2,992	2,028
CN Real Estate	5,687	231	10,747	1,026	709	637
Dockyard and Other	1,117	506	8,736	1,065	1,035	822
CN Marine Inc.*			99,689			11,602
	744,475	713,149	714,413	282,319	260,950	254,006

*See Note 1(a).
**Represents additions to property, plant and equipment.

CANADIAN NATIONAL RAILWAY SYSTEM—*Concluded*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Concluded*

Note 12: Other Matters

(a) The Company carries on ordinary business transactions with various entities controlled by the Government of Canada on the same terms and conditions as current transactions with unrelated parties.
In addition, the Company provides, under contractual arrangements, rail transportation and maintenance services to the Government of Canada and to entities controlled by the latter. The revenue derived from such services rendered in 1985 aggregated $320.0 million (1984—$351.8 million, 1983—$444.8 million).

(b) Commencing in 1977, the Government of Canada has agreed to pay to the Company, by way of capital grants not exceeding $557.9 million, certain amounts with respect to expenditures incurred in carrying out rehabilitation programs for branch lines in Western Canada. Total payments received up to December 31, 1985, amounted to $396.9 million of which $43.7 million was received in 1985 (1984—$64.8 million).

(c) As part of a program commenced in 1981 for the testing and evaluation of railway operations in Newfoundland, the Government of Canada reimbursed CN for certain wage and wage-related costs. Total billings under this program amounted to $7.6 million in 1985 (1984—$4.1 million).

Note 13: Reclassification of Comparative Figures

During 1985, changes were made to improve the classification of certain items and for comparative purposes the 1984 and 1983 figures have been reclassified. The major change was the combining under "Canadian Rail" of the former CN Rail Division with the Corporate group, whose results, together with the interest not allocated to divisions, had previously been designated as "Miscellaneous" in the Consolidated Statement of Income. Coincidentally, a more complete assignment of interest and other miscellaneous costs to the divisions was made.

SUMMARY PAGE

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LTD.

MANDATE

To collect monies due to it from the sale of eight steamships to Cuban interests.

BACKGROUND

The corporation, which provided a steamship service to the West Indies, has been inactive since 1958 when its fleet of ships was sold to Banco Cubana of Havana. In 1959, the corporate management was transferred to federal government officials for the purpose of collecting the proceeds from the sale. An irrevocable letter of credit issued through the Bank of America to cover the final principal payment was not honoured because of the imposition of the Cuban Assets Control Regulations by the U.S. government on July 3, 1963. The sole purpose of maintaining the company has been to collect the outstanding principal plus interest, totalling $1.1 million as of December 31, 1985. Authority to dissolve the corporation was given in the *Crown Corporations Dissolution Authorization Act*, which received Royal Assent on October 29, 1985. The corporation will not be dissolved until the Bank of America provides assurances that payment would be made to Her Majesty in right of Canada.

CORPORATION DATA

HEAD OFFICE	Tower C Place de Ville Ottawa, Ontario K1A 0N5
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	Created by CNR in 1927 under the *Dominion Companies Act* and continued (November 21, 1978) under the *Canada Business Corporations Act*.
CHIEF EXECUTIVE OFFICER	N. Van Duyvendyk
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	1984	1983	1982
At the end of the year				
Total Assets	1.1	1.0	0.9	0.8
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	0.3	0.3	0.3	0.3
Equity of Canada	0.7	0.6	0.6	0.5
Cash from Canada in the year				
— budgetary	nil	nil	nil	nil
— non-budgetary	nil	nil	nil	nil

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS LTD.

AUDITOR'S REPORT

THE HONOURABLE DON MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

I have examined the balance sheet of Canadian National (West Indies) Steamships Ltd. as at December 31, 1985 and the statement of income and retained earnings for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canada Business Corporations Act and the by-laws of the Corporation.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
March 21, 1986

BALANCE SHEET AS AT DECEMBER 31, 1985

ASSETS	1985	1984	LIABILITIES	1985	1984
	$	$		$	$
Cash	1,452	1,448	Matured bonds—Unclaimed (Note 3)	14,025	14,025
Deposit with Receiver General for Canada	95,000	95,000	Due to Canada (Note 4)	324,024	324,024
Blocked funds (Note 2)	976,889	878,582		338,049	338,049
			EQUITY OF CANADA		
			Capital stock		
			Authorized and issued		
			10 Class A shares without nominal or par value	976	976
			Retained earnings	734,316	636,005
				735,292	636,981
	1,073,341	975,030		1,073,341	975,030

Approved by the Board of Directors:

N. VAN DUYVENDYK
Chairman

S.L. ALLEN
Director

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS LTD.—*Concluded*

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1985

	1985	1984
	$	$
Interest income	98,351	86,872
Filing fee and bank charges	40	30
Net income for the year	98,311	86,842
Retained earnings at beginning of the year	636,005	549,163
Retained earnings at end of the year	734,316	636,005

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985

1. Authority and activities

The Corporation is continued under the Canada Business Corporations Act and is a parent Crown corporation named in Schedule C Part I to the Financial Administration Act. It ceased all active operations in 1957, at which time it sold its fleet of eight vessels to Cuban interests.

On October 29, 1985, Parliament passed the Crown Corporations Dissolution Authorization Act which authorized the Minister of Finance to dissolve the Corporation.

An assignment has been prepared in which the Corporation transfers to Her Majesty in Right of Canada all its rights and interests in, to or arising out of the letter of credit referred to in Note 2 below. However, this document has not yet been executed since the consent from BankAmerica International to this assignment and their acknowledgement that payment under the letter of credit will be made to Her Majesty in Right of Canada, have not yet been received.

Accordingly, the Corporation remains to be dissolved and as such the blocked funds are still recorded as an asset of the Corporation.

The dissolution process will be completed when the consent and acknowledgement are received from BankAmerica International.

2. Blocked funds

The final installment of $470,400 on the sale of the eight vessels to Cuban interests was due to be paid August 19, 1963 by an irrevocable letter of credit issued through BankAmerica International (then known as Bank of America). However, on July 3, 1963, the United States Cuban Assets Control Regulations became effective and prohibited the Bank from honouring payment of the draft. Amendments to the Regulations, effective March 2, 1979 required blocked funds to be held in an interest-bearing account. At December 31, 1985, accrued interest amounted to $506,489 (1984—$408,182).

Negotiations to obtain a preferred status in order to receive the blocked funds have not been successful. In the opinion of management, based on legal counsel, these funds will be collected when the Regulations are repealed by the United States. A waiver of the application of the statute of limitations has been obtained until January 1, 1989, and further extensions will be obtained as required.

3. Matured bonds—Unclaimed

The matured bonds have been unclaimed since March 1, 1955 and as a result of the statute of limitations there is no legal obligation to redeem them. However, the Corporation intends to honour any of the outstanding bonds should they be presented.

4. Due to Canada

The advances from Canada bear no interest and are repayable when the blocked funds are received.

SUMMARY PAGE

CANADIAN PATENTS AND DEVELOPMENT LIMITED

MANDATE

To secure optimum benefits to Canada from commercially utilizable technology accruing to the Crown from expenditure of federal funds.

BACKGROUND

The corporation makes available to the public the industrial and intellectual property resulting from government-funded research and development. It makes licensing arrangements with industry and monies received thereby are used to cover most of its operating expenses. Awards are paid to inventors under the *Public Service Inventors Act*.

CORPORATION DATA

HEAD OFFICE	275 Slater Street Ottawa, Ontario K1A 0R3
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Michel Coté P.C., M.P.
DEPARTMENT	Regional Industrial Expansion
DATE AND MEANS OF INCORPORATION	October 24, 1947; by letters patent under the *Companies Act*
CHIEF EXECUTIVE OFFICER	W. Dallas Gordon
CHAIRMAN	William F. Graydon
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	1.1	1.3	1.7	1.5
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	0.4	0.7	0.9	0.9
Cash from Canada in the period				
— budgetary	0.4	0.4	0.4	nil
— non-budgetary	nil	nil	nil	nil

CANADIAN PATENTS AND DEVELOPMENT LIMITED

AUDITOR'S REPORT

THE HONOURABLE DONALD FRANK MAZANKOWSKI, P.C., M.P.
ACTING MINISTER OF REGIONAL INDUSTRIAL EXPANSION

I have examined the balance sheet of Canadian Patents and Development Limited as at March 31, 1986 and the statements of operations and surplus and changes in cash resources for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

Accounts receivable include an amount of $113,291 which, in my opinion, may not be collectible. Generally accepted accounting principles require that an appropriate allowance be made in the financial statements to recognize the possible loss. If the Corporation had complied with this requirement, accounts receivable and surplus would have been reduced by up to $113,291 and cost of operations would have been increased by up to $113,291.

In my opinion, except that no allowance has been made for the possible loss described in the preceding paragraph, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, except as noted in the second preceding paragraph above the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canada Business Corporations Act and by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
May 30, 1986

BALANCE SHEET AS AT MARCH 31, 1986

ASSETS	1986	1985
	$	$
Current		
Cash	121,844	141,232
Term deposits	200,000	570,000
Accounts receivable	523,933	348,464
Accrued interest	3,530	7,430
Prepaid expenses	10,924	11,171
	860,231	1,078,297
Investment in Canada bonds (market value: 1986—$241,250; 1985—$218,750)	247,500	247,500
Industrial and intellectual property rights (Notes 2, 3 and 5)	1	1
Experimental equipment on loan to a licensee (Note 4)	1	1
	1,107,733	1,325,799

LIABILITIES	1986	1985
	$	$
Current		
Accounts payable and accrued liabilities	405,329	401,465
Royalties received in advance	102,675	53,562
	508,004	455,027
Provision for employee termination benefits	193,774	176,002
	701,778	631,029
EQUITY OF CANADA		
Capital stock		
Authorized—10,000 shares of no par value		
Issued—5,000 shares fully paid	296,199	296,199
Surplus	109,756	398,571
	405,955	694,770
	1,107,733	1,325,799

Approved by the Board:

W. F. GRAYDON
Director

W. D. GORDON
Director

CANADIAN PATENTS AND DEVELOPMENT LIMITED—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Revenue		
Royalties	1,567,442	1,450,845
Interest on investments	66,220	96,315
Service charges under agency agreements	32,823	48,465
Interest charged on overdue accounts	27,010	6,288
Miscellaneous	5,466	5,269
	1,698,961	1,607,182
Expenses		
Salaries and employee benefits	1,205,956	1,111,460
Industrial and intellectual property agents' fees and related expenses, for obtaining and maintaining proprietary protection (Note 5)	479,417	359,711
Accommodation, equipment and other rentals	206,809	206,051
Amounts paid or owed to third parties in respect of royalty revenue	111,103	145,857
Awards to inventors	104,606	105,900
Legal fees	59,517	105,149
Office supplies, printing, furnishings and equipment	58,527	45,160
Professional and special services	37,275	54,689
Communications	36,016	33,259
Travel and removal	34,291	27,165
Bad debts	2,771	1,109
Miscellaneous	1,488	1,274
	2,337,776	2,196,784
Cost of operations	638,815	589,602
Parliamentary appropriation	350,000	350,000
Excess of cost of operations over parliamentary appropriation for the year	288,815	239,602
Surplus at beginning of the year	398,571	638,173
Surplus at end of the year	109,756	398,571

STATEMENT OF CHANGES IN CASH RESOURCES FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$ (Restated)
Cash used in operating activities		
Cost of operations	638,815	589,602
Items not requiring cash		
Provision for employee termination benefits	(20,147)	(24,931)
	618,668	564,671
Cash used in (provided by) non-cash working capital components		
Accounts receivable	175,469	(274,536)
Other current assets	(4,147)	4,135
Accounts payable and accrued liabilities	(3,864)	151,655
Royalties received in advance	(49,113)	(5,218)
	118,345	(123,964)
Payment of employee termination benefits	2,375	
Cash used in operating activities	739,388	440,707
Cash provided by Parliamentary appropriation	350,000	350,000
Decrease during the year	389,388	90,707
Cash and term deposits at beginning of year	711,232	801,939
Cash and term deposits at end of year	321,844	711,232

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1986

1. Authority and operations

Canadian Patents and Development Limited is a Crown corporation named in Part I of Schedule C to the Financial Administration Act and is incorporated under the Canada Business Corporations Act. The Corporation was established to make available to the public, through licensing arrangements with industry, the industrial and intellectual property which results from publicly-funded research and development.

The Corporation receives and processes industrial and intellectual property under arrangements with federal government departments, Crown corporations and agencies, universities, and other publicly-financed institutions. Suitable protection is sought in Canada and other countries for such property in instances where there is a promise of commercial use. In respect of money received from the exploitation of such property, the Corporation pays awards to public servants under the Public Servants Inventions Act and makes payments to other originators of such property in accordance with the agreements entered into with them.

2. Significant accounting policies

Investment in Canada bonds

Canada bonds are carried at cost since it is management's intention to hold them to maturity in 1989.

Industrial and intellectual property rights

Industrial and intellectual property rights are recorded at a nominal value of $1. The net cost of acquisition, protection and maintenance of industrial and intellectual property rights is charged to operations as incurred (Notes 3 and 5).

Experimental equipment on loan to a licensee

Experimental equipment on loan to a licensee is recorded at a nominal value of $1. The cost of this equipment is charged to operations in the year of acquisition.

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

Parliamentary appropriation

Parliamentary appropriation is recorded when received.

Pension plan

Employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the cost of the Plan under present legislation are limited to an amount equal to the employees' contributions on account of current service. These contributions, which amounted to $63,579 for the year ended March 31, 1986 (1985—$58,369), represent the total pension obligations of the Corporation and are recognized in the accounts on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account or with respect to charges to the Consolidated Revenue Fund for indexation payments under the Supplementary Retirement Benefits Act.

3. Industrial and intellectual property rights

The accumulated cost of current inventory of unexpired patent and other rights in respect of industrial and intellectual property amounts to $2,884,259 (1985—$2,441,566).

CANADIAN PATENTS AND DEVELOPMENT LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

4. Experimental equipment on loan to a licensee

The accumulated cost of experimental equipment purchased under active development contracts and held by a licensee amounts to $123,500 (1985—$123,500).

5. Industrial and intellectual property agents' fees and related expenses, for obtaining and maintaining proprietary protection

	1986	1985
	$	$
Fees and related expenses	661,420	505,971
Less: recoveries	182,003	146,260
	479,417	359,711

6. Lease commitments

Under a lease agreement dated September 30, 1983 the Corporation pays an annual rent of $169,425 for accommodation. The period covered by this agreement is November 1, 1983 to October 31, 1988.

SUMMARY PAGE

CANADIAN SALTFISH CORPORATION

MANDATE

To regulate interprovincial and export trade in saltfish from participating provinces (Quebec - Lower North Shore, and Newfoundland) to improve earnings of primary producers of cured cod fish.

BACKGROUND

By its enabling legislation, the corporation must buy all saltfish offered to it which is of reasonable quality, and must conduct its operations on a self-sustaining basis without appropriations.

CORPORATION DATA

HEAD OFFICE	Saltfish Building Torbay Road P.O. Box 6088 St. John's, Newfoundland A1C 5X8
STATUS	— Schedule C, Part I — an agent of her Majesty
APPROPRIATE MINISTER	The Honourable Thomas Siddon, P.C., M.P.
DEPARTMENT	Fisheries and Oceans
DATE AND MEANS OF INCORPORATION	Created by the *Saltfish Act* (R.S.C. 1970, C.37, 1st supplement). Royal Assent March 25, 1970
CHIEF EXECUTIVE OFFICER	W.R. Moyse
CHAIRMAN	Donald D. Tansley
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	16.6	14.5	18.3	18.9
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	17.4	12.3	14.1	8.4
Equity of Canada	(5.4)	(3.3)	0.4	5.4
Cash from Canada in the period				
— budgetary	nil	nil	nil	nil
— non-budgetary, net	5.1	(1.8)	5.7	6.7

CANADIAN SALTFISH CORPORATION

AUDITOR'S REPORT

THE HONOURABLE THOMAS SIDDON, P.C., M.P.
MINISTER OF FISHERIES AND OCEANS

I have examined the balance sheet of the Canadian Saltfish Corporation as at March 31, 1986 and the statements of operations, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Saltfish Act and the by-laws of the Corporation, except for the activities involving frozen fish products described in Note 1 to the financial statements. In my opinion, these activities are not within the powers of the Corporation under the Saltfish Act.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
May 23, 1986

BALANCE SHEET AS AT MARCH 31, 1986

ASSETS	1986	1985
	$	$
Current		
Cash	630,486	
Accounts receivable (Note 6)	9,124,790	9,864,776
Inventories (Note 3)	5,684,365	3,408,049
Advances to frozen fish producers (Note 1)	118,304	129,287
	15,557,945	13,402,112
Fixed (Note 4)		
Land, buildings and equipment	2,929,824	2,863,623
Less: accumulated depreciation	1,893,218	1,753,433
	1,036,606	1,110,190
	16,594,551	14,512,302

LIABILITIES	1986	1985
	$	$
Current		
Bank overdraft		10,323
Working capital loans from Canada (Note 5)	16,750,000	11,500,000
Accounts payable and accrued liabilities	4,364,408	5,248,105
Current portion of capital asset loans from Canada	150,000	185,000
	21,264,408	16,943,428
Long-term		
Capital asset loans from Canada, net of current portion (Note 5)	500,000	650,000
Provision for employee termination benefits	257,024	231,946
	757,024	881,946
DEFICIT OF CANADA		
Deficit	(5,426,881)	(3,313,072)
	16,594,551	14,512,302

Approved by the Board:

W. R. MOYSE
Director

A. MALONEY
Director

CANADIAN SALTFISH CORPORATION—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Sales		
Saltfish products	28,872,035	37,557,697
Traded fish products (Note 1)	1,951,943	1,140,750
Frozen fish products (Note 1)	16,760,410	22,109,033
	47,584,388	60,807,480
Less: freight and insurance	2,043,916	2,438,091
	45,540,472	58,369,389
Cost of goods sold		
Production costs	25,528,447	34,137,380
Transportation, storage and packaging	1,473,439	2,162,872
Other buying costs	910,895	1,046,963
Frozen fish products (Note 1)	16,760,410	22,109,033
	44,673,191	59,456,248
Profit (loss) before expenses	867,281	(1,086,859)
Expenses		
Selling	714,351	630,776
Administrative	656,955	689,966
Interest —Long-term	84,878	100,489
—Current	732,656	1,580,212
Gain on foreign exchange	(207,750)	(332,673)
	1,981,090	2,668,770
Net loss on Operations	(1,113,809)	(3,755,629)
Unusual item		
Bad debt allowance (Note 6)	(1,000,000)	
Net loss for the year	(2,113,809)	(3,755,629)

STATEMENT OF DEFICIT FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Balance at beginning of the year	(3,313,072)	442,557
Net loss for the year	(2,113,809)	(3,755,629)
Balance at end of the year	(5,426,881)	(3,313,072)

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Funds were provided by (used for)		
Financing activities		
Increase (decrease) in working capital loans from Canada	5,250,000	(1,500,000)
Repayment of capital asset loans from Canada	(185,000)	(271,000)
	5,065,000	(1,771,000)
Operations		
Net loss for the year	(2,113,809)	(3,755,629)
Adjustments for non cash items		
Depreciation	147,812	176,944
Loss on sale	4,264	
Employee termination benefits	25,078	18,936
	(1,936,655)	(3,559,749)
Decrease in trade balances	(132,728)	(62,266)
(Increase) decrease in inventories	(2,276,316)	5,375,739
	(4,345,699)	1,753,724
Investing activities		
Purchase of fixed assets	(78,492)	(98,930)
Net funds provided (used)	640,809	(116,206)
Cash (bank overdraft) at beginning of the year	(10,323)	105,883
Cash (bank overdraft) at end of the year	630,486	(10,323)

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1986

1. Authority, objectives and operations of the Corporation

The Canadian Saltfish Corporation was established by the Saltfish Act in 1970, to improve the earnings of the primary producers of cured codfish. The Corporation is a Crown corporation of Canada without share capital, named in Schedule C, Part I to the Financial Administration Act, is an agent of Her Majesty, and is required to conduct its operations on a self-sustaining financial basis. The Corporation is dependent on the Government of Canada for working capital and capital asset loans and is not subject to income taxes.

The Corporation has the exclusive right to trade in and market cured fish and its by-products in the Province of Newfoundland and the Lower North Shore of Quebec and is required to buy all cured codfish of an acceptable standard of quality offered for sale therein. Fish is purchased from fishermen, processed through agents of the Corporation and is subsequently marketed by the Corporation.

Traded fish and frozen fish products

The Corporation is involved in the role of marketing frozen fish products (traded fish) on behalf of independent producing companies for a commission. These transactions are recorded as sales and cost of goods sold in the statement of operations.

The Corporation also markets frozen fish products under contractual arrangements with a number of companies. Under these agreements, the Corporation may make advances based on the projected market value to the producer. The balance of the market value received by the producing company is determined by the ultimate selling price and all related expenses. The Corporation does not receive any revenue for this service but does recover the direct costs of providing the service, interest on advances and certain overhead expenses.

In certain instances, in order to secure the Corporation's position against any possible third party claims against the producer, the Corporation takes title to the product when it leaves the plant.

CANADIAN SALTFISH CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

These sales and related cost of goods sold are recorded as offsetting amounts in the statement of operations. The agreement with the producing company attributes any gain or loss on the ultimate sale of the product to the producer.

The total frozen fish sales that the Corporation was involved in marketing are as follows:

	1986	1985
	$	$
Traded frozen fish products	1,879,214	810,083
Frozen fish products	16,760,410	22,109,033
	18,639,624	22,919,116

In addition, the Corporation was involved in the marketing of $1,318,805 (1985—$3,100,796) of frozen fish products where title did not pass. These sales and related cost of goods sold were not recorded in the statement of operations.

2. Significant accounting policies

Depreciation

Depreciation is calculated on the straight-line method and is based on the estimated useful lives of the assets as follows:

Buildings	20 years
Equipment	3 to 10 years
Furniture and fixtures	5 years

Foreign currency translation

Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the rate of exchange prevailing on the transaction date. The resulting foreign currency translation gains and losses are included in the results of operations.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the plan are required from both the employee and the Corporation. Contributions with respect to current services are expensed in the current period.

Employee termination benefits

Employees are entitled to specific benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees.

3. Inventories

Inventories are made up of the following categories:

	1986	1985
	$	$
Fish, at lower of cost and net realizable value	3,407,328	1,883,140
Packages and supplies, at cost	390,516	223,129
Salt, at cost	228,870	318,976
	4,026,714	2,425,245
Frozen fish at lower of cost and net realizable value	1,657,651	982,804
	5,684,365	3,408,049

4. Fixed assets

	1986			1985
	Cost	Accumulated depreciation	Net book value	Net book value
	$	$	$	$
Land	117,274		117,274	117,274
Buildings	956,156	352,125	604,031	649,394
Equipment	1,624,222	1,396,309	227,913	254,706
Furniture and fixtures	232,172	144,784	87,388	88,816
	2,929,824	1,893,218	1,036,606	1,110,190

5. Loans from Canada

Working capital loans are interest bearing (based upon current rates as set by the Bank of Canada) and are repayable within one year.

Total loans outstanding from Canada and banks shall not exceed $50 million.

Loans obtained to finance capital expenditures bear interest and are subject to repayment in ten equal instalments. Outstanding capital asset loans are as follows:

Due date	Interest rate	1986	1985
	%	$	$
September 22, 1985	7¾		22,500
March 31, 1986	8⅞		12,500
March 27, 1989	10⅛	30,000	40,000
September 28, 1989	10	320,000	400,000
September 30, 1990	12⅜	300,000	360,000
		650,000	835,000
Less: current portion		150,000	185,000
		500,000	650,000

Repayment requirements over the next five fiscal years are $150,000 in 1987, 1988 and 1989; $140,000 in 1990 and $60,000 in 1991.

6. Unusual item

Included in receivables is an account receivable of $2,081,000 which has been outstanding since April 1984. During the year, the Corporation secured a first mortgage on property owned by this account for the appraised value of the property, which is approximately $1,000,000, but has been unsuccessful in obtaining any additional security. The amount the Corporation may ultimately realize from this account cannot be estimated at this time. For this reason, the Corporation has provided an allowance for bad debts of $1,000,000.

SUMMARY PAGE

THE CANADIAN WHEAT BOARD

MANDATE

To market in an orderly manner, in export trade, grain grown in the designated area of Canada; to promote the export of grain. The Board must buy and take delivery of grain, within quotas it establishes, from producers in the designated area. It administers the *Prairie Grain Advance Payments Act*.

BACKGROUND

Founded in 1935, the Board regulates delivery and coordinates collection, transport and storage of wheat, rye, oats, barley, flaxseed and rapeseed in the Prairie provinces and in parts of British Columbia and western Ontario. For various grades of grains, it administers a pool for each crop-year. Agents appointed by the Board take delivery, store and finance much of the harvest and, depending on the season, the Board's obligations to agents can exceed $1 billion. In 1976, when crop-year grain exports totalled 18.5 million tonnes, the Board set a ten-year target of 30 million tonnes for crop-year exports which was achieved one year ahead of schedule. Most exports of grain are sold for cash or nearby payment but credit sales have become significant in recent years. The bank loans which finance the credit sales are guaranteed by Canada.

CORPORATION DATA

HEAD OFFICE	423 Main Street Winnipeg, Manitoba R3B 1B3
STATUS	An agent of Her Majesty; exempted from the provisions of Divisions I to IV of Part XII of the *Financial Administration Act*.
APPROPRIATE MINISTER	The Honourable Charles J. Mayer, P.C., M.P. Minister of State (Canadian Wheat Board)
DATE AND MEANS OF INCORPORATION	1935; by *The Canadian Wheat Board Act* (R.S.C. 1970, C. 12)
CHIEF EXECUTIVE OFFICER	W. Esmond Jarvis
AUDITOR	Deloitte Haskins & Sells

FINANCIAL SUMMARY ($ million) The financial year ends July 31.

	1984-85	1983-84	1982-83	1981-82
At the end of the period				
Total Assets	5,210	5,030	4,297	4,109
Obligations to the private sector	4,694	4,259	3,816	3,465
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	385	672	401	565
Cash from Canada in the period				
—budgetary	131	121	119	nil
—non-budgetary	nil	nil	nil	nil

THE CANADIAN WHEAT BOARD

AUDITORS' REPORT

TO THE CANADIAN WHEAT BOARD

We have examined the balance sheet of The Canadian Wheat Board as at July 31, 1985, and the statements of operations for the 1984-85 pool accounts for wheat, amber durum wheat, designated oats, barley and designated barley for the period August 1, 1984 to completion of operations on September 30, 1985, the statements of operations for the 1984-85 pool account for oats for the period August 1, 1984 to completion of operations on November 15, 1985, the statement of administrative and general expenses and allocations to operations for the year ended July 31, 1985, the statement of advance payments to producers under the Prairie Grain Advance Payments Act as at July 31, 1985, and the statement of special account transactions for the year ended July 31, 1985. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Board as at July 31, 1985 and the results of operations for the periods shown, in accordance with generally accepted accounting principles consistently applied.

Deloitte, Haskins & Sells
Chartered Accountants

Winnipeg, Canada
March 13, 1986

BALANCE SHEET AS AT JULY 31, 1985
(with prior year figures for comparison)

EXHIBIT I

ASSETS	1985	1984
	$	$
Stocks of grain		
Wheat	1,162,910,405	1,349,117,354
Durum	80,190,344	122,731,578
Oats	3,556,023	2,182,760
Designated Oats	109,682	93,890
Barley	98,237,385	52,713,112
Designated Barley	10,117,349	7,686,258
	1,355,121,188	1,534,524,952
Bills of exchange plus accrued interest (Note 2)	3,691,148,705	3,202,275,567
Accounts receivable (Note 3)		
Due from Board Agents on completed sales	20,182,068	166,927,017
Sundry	49,498,523	30,883,405
Prairie Grain Advance Payments Act	5,438,408	7,682,214
The Canadian Wheat Board Building, Winnipeg, at cost less depreciation	2,052,051	2,162,188
Covered hopper cars, at cost less depreciation (Note 4)	73,137,536	76,161,228
Office furniture, equipment and automobiles, at cost less depreciation	1,048,458	1,004,198
Deferred and prepaid expenses	12,430,376	8,229,251
	5,210,057,313	5,029,850,020

LIABILITIES	1985	1984
	$	$
Liability to Banks (Note 5)	3,908,353,974	3,162,952,155
Debentures payable (Note 6)	67,480,000	65,475,000
Liability to agents for grain purchased from producers (Note 7)	570,996,143	826,390,827
Liability to agents for deferred cash tickets (Note 8)	146,494,799	203,160,168
Accrued expenses and accounts payable (Note 9)	118,394,334	86,151,364
Outstanding adjustment and final payment cheques to producers		
Wheat	595,517	570,324
Durum	37,847	49,257
Oats	5,639	14,274
Designated Oats	1,426	391
Barley	26,462	34,799
Designated Barley	21,831	12,319
Special Account—Net balance of undistributed payment accounts (Note 10)	5,171,556	5,778,515
Provision for final payment expenses (Note 11)	7,197,503	7,196,788
Surpluses resulting from operations		
Pool Account		
Wheat	298,637,686	478,602,282
Durum	41,422,294	50,593,695
Oats	675,422	385,062
Designated Oats	813,196	591,895
Barley	19,066,956	110,509,643
Designated Barley	24,664,728	31,381,262
	5,210,057,313	5,029,850,020

W. E. JARVIS
Chief Commissioner

R. L. KRISTJANSON
Assistant Chief Commissioner

F. M. HETLAND
Commissioner

W. H. SMITH
Commissioner

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF OPERATIONS

1984-85 POOL ACCOUNT—WHEAT
FOR THE PERIOD AUGUST 1, 1984, TO COMPLETION OF OPERATIONS ON SEPTEMBER 30, 1985
(with prior year figures for the 1983-84 Pool Account for comparison)

EXHIBIT II

	1984-85		1983-84	
	Tonnes	Amount	Tonnes	Amount
		$		$
Wheat acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	16,192,572	2,722,955,091	20,186,978	3,352,896,639
Net tonnes acquired from the adjustment of overages and shortages, etc., at country and terminal elevators at Board initial prices basis in store Thunder Bay or Vancouver	93,765	15,823,780	85,330	14,532,873
Purchased from prior year Pool Account—Wheat	482,460	84,511,290	844,767	153,715,767
	16,768,797	2,823,290,161	21,117,075	3,521,145,279
Wheat sold				
Completed sales to July 31 basis in store Thunder Bay, Vancouver or Churchill				
Domestic	1,171,699		1,210,094	
Export	9,316,116		12,974,962	
Weight losses in transit and in drying	5,672		10,160	
	10,493,487	2,119,100,423	14,195,216	2,795,055,087
Wheat stocks—Being Wheat stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay, Vancouver or Churchill				
Completed sales for the period subsequent to July 31				
Domestic	258,172		403,268	
Export	3,374,091		6,036,131	
Sale to the subsequent Pool Account—Wheat	2,643,047		482,460	
	6,275,310	1,162,910,405	6,921,859	1,349,117,354
	16,768,797	3,282,010,828	21,117,075	4,144,172,441
Surplus on Wheat transactions		458,720,667		623,027,162
Operating costs				
Carrying charges				
Carrying charges on Wheat stored in country elevators		88,292,322		89,905,467
Storage on Wheat stored in terminal elevators		28,079,232		18,909,270
		116,371,554		108,814,737
Interest, bank charges and net interest on other Board accounts		12,300,778		(3,463,630)
Demurrage		(2,416,042)		(435,169)
Additional freight —Wheat shipped from country stations to terminal position		5,606,478		2,422,929
—Freight rate changes		(2,608,292)		8,246,530
Handling and stop-off on Wheat warehoused at interior terminals		1,055,877		(49,462)
Drying charges		767,681		1,713,617
Interest and depreciation on Wheat Board hopper cars		10,170,355		9,424,620
Wheat Board administrative and general expenses		18,834,592		17,750,708
		160,082,981		144,424,880
Surplus on operations of the Board on the Pool Account—Wheat, for the period from August 1, 1984, to September 30, 1985 (1983-84 October 31, 1984)		298,637,686		478,602,282

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF OPERATIONS

1984-85 POOL ACCOUNT—AMBER DURUM WHEAT
FOR THE PERIOD AUGUST 1, 1984, TO COMPLETION OF OPERATIONS ON SEPTEMBER 30, 1985
(with prior year figures for the 1983-84 Pool Account for comparison)

EXHIBIT III

	1984-85		1983-84	
	Tonnes	Amount	Tonnes	Amount
		$		$
Durum acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	1,786,421	319,040,593	2,278,079	406,403,268
Net tonnes acquired from the adjustment of overages and shortages, etc., at country and terminal elevators at Board initial prices basis in store Thunder Bay or Vancouver	8,270	1,434,938	8,408	1,496,395
Purchased from prior year Pool Account—Durum			463,843	90,544,238
	1,794,691	320,475,531	2,750,330	498,443,901
Durum sold				
Completed sales to July 31 basis in store Thunder Bay, Vancouver or Churchill				
Domestic	98,269		86,034	
Export	1,276,828		2,061,514	
Weight losses in transit and in drying	3,247		2,749	
	1,378,344	297,296,259	2,150,297	444,897,812
Durum stocks—Being Durum stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay, Vancouver or Churchill				
Completed sales for the period subsequent to July 31				
Domestic	25,348		28,876	
Export	271,353		571,157	
Sale to the subsequent Pool Account—Durum	119,646			
	416,347	80,190,345	600,033	122,731,578
	1,794,691	377,486,604	2,750,330	567,629,390
Surplus on Amber Durum Wheat transactions		57,011,073		69,185,489
Operating costs				
Carrying charges				
Carrying charges on Durum stored in country elevators		7,863,782		10,884,477
Storage on Durum stored in terminal elevators		4,096,695		2,442,679
		11,960,477		13,327,156
Interest and bank charges		2,045,742		(274,924)
Demurrage		(1,748,659)		1,495,075
Additional freight—Durum shipped from country stations to terminal position		239,158		269,658
—Freight rate changes		(115,901)		701,687
Handling and stop-off on Durum warehoused at interior terminals				3,642
Drying charges		8,037		2,793
Interest and depreciation on Wheat Board hopper cars		1,122,027		1,063,558
Wheat Board administrative and general expenses		2,077,897		2,003,149
		15,588,778		18,591,794
Surplus on operations of the Board on the Pool Account—Durum, for the period from August 1, 1984, to September 30, 1985 (1983-84 October 31, 1984)		41,422,295		50,593,695

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF OPERATIONS

1984-85 POOL ACCOUNT—OATS
FOR THE PERIOD AUGUST 1, 1984, TO COMPLETION OF OPERATIONS ON NOVEMBER 15, 1985
(with prior year figures for the 1983-84 Pool Account for comparison)

EXHIBIT IV

	1984-85		1983-84	
	Tonnes	Amount	Tonnes	Amount
		$		$
Oats acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	54,639	5,416,401	55,389	5,496,654
Purchased from prior year Pool Account—Oats	16,369	1,785,902	43,173	4,959,168
	71,008	7,202,303	98,562	10,455,822
Oats sold				
Completed sales to July 31 basis in store Thunder Bay or Vancouver	38,487	4,921,612	78,012	9,515,302
Weight losses in transit and in drying				
Oats stocks—Being Oats stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay or Vancouver				
Completed sales for period subsequent to July 31	28,211	3,115,692	4,181	396,859
Sale to subsequent Pool Account—Oats	4,310	440,331	16,369	1,785,902
	71,008	8,477,635	98,562	11,698,063
Surplus on Oats transactions		1,275,332		1,242,241
Operating costs				
Carrying charges				
Carrying charges on Oats stored in country elevators		285,692		374,439
Storage on Oats stored in terminal elevators		194,177		181,254
		479,869		555,693
Interest and bank charges		3,410		20,530
Additional freight—Oats shipped from country stations to terminal position		98,106		177,403
—Freight rate changes		(84,660)		28,989
Interest and depreciation on Wheat Board hopper cars		34,318		25,859
Wheat Board administrative and general expenses		68,867		48,705
		599,910		857,179
Surplus on operations of the Board on the Pool Account—Oats, for the period from August 1, 1984, to November 15, 1985 (1983-84 October 31, 1984)		675,422		385,062

STATEMENT OF OPERATIONS

1984-85 POOL ACCOUNT—DESIGNATED OATS
FOR THE PERIOD AUGUST 1, 1984, TO COMPLETION OF OPERATIONS ON SEPTEMBER 30, 1985
(with prior year figures for the 1983-84 Pool Account for comparison)

EXHIBIT V

	1984-85		1983-84	
	Tonnes	Amount	Tonnes	Amount
		$		$
Designated Oats acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	44,219	6,061,679	40,023	5,498,760
Designated Oats sold				
Completed sales to July 31 basis in store Thunder Bay or Vancouver	43,504	6,749,003	39,429	5,973,437
Designated Oats stocks — Being Designated Oats stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay or Vancouver				
Completed sales for the period subsequent to July 31	715	109,682	594	93,890
	44,219	6,858,685	40,023	6,067,327
Surplus on Designated Oats transactions		797,006		568,567
Operating costs				
Interest		(95,397)		(77,206)
Interest and depreciation on Canadian Wheat Board hopper cars		27,773		18,685
Wheat Board administrative and general expenses		51,434		35,193
		(16,190)		(23,328)
Surplus on operations of the Board on the Pool Account — Designated Oats, for the period from August 1, 1984, to September 30, 1985 (1983-84 October 31, 1984)		813,196		591,895

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF OPERATIONS

1984-85 POOL ACCOUNT—BARLEY
FOR THE PERIOD AUGUST 1, 1984, TO COMPLETION OF OPERATIONS ON SEPTEMBER 30, 1985
(with prior year figures for the 1983-84 Pool Account for comparison)

EXHIBIT VI

	1984-85		1983-84	
	Tonnes	Amount $	Tonnes	Amount $
Barley acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	3,068,472	382,262,408	4,007,756	438,761,246
Net tonnes acquired from the adjustment of overages and shortages, etc., at country and terminal elevators at Board initial prices basis in store Thunder Bay or Vancouver	17,053	2,105,090	23,728	2,602,169
	3,085,525	384,367,498	4,031,484	441,363,415
Barley sold				
Completed sales to July 31 basis in store Thunder Bay, Vancouver or Churchill	2,235,067	318,598,608	3,673,279	507,159,484
Weight losses in transit and in drying	2,545		2,034	
Barley stocks—Being Barley stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay, Vancouver or Churchill				
Completed sales for the period subsequent to July 31	367,060	44,633,198	356,171	52,713,112
Sales to subsequent pool account—Barley	480,853	53,604,187		
	3,085,525	416,835,993	4,031,484	559,872,596
Surplus on Barley transactions		32,468,495		118,509,181
Operating costs				
Carrying charges				
Carrying charges on Barley stored in country elevators		4,724,253		4,683,339
Storage on Barley stored in terminal elevators		3,356,581		2,246,162
		8,080,834		6,929,501
Interest and bank charges		(1,306,516)		(7,543,393)
Demurrage		(449,348)		1,941,439
Additional freight—Barley shipped from country stations to terminal position		1,897,338		902,833
—Freight rate changes		(893,639)		207,308
Handling and stop-off on Barley warehoused at interior terminals		(52,098)		(108,820)
Drying charges		628,571		275,505
Interest and depreciation on Wheat Board hopper cars		1,927,267		1,871,085
Wheat Board administrative and general expenses		3,569,130		3,524,080
		13,401,539		7,999,538
Surplus on operations of the Board on the Pool Account—Barley, for the period from August 1, 1984, to September 30, 1985 (1983-84 October 31, 1984)		19,066,956		110,509,643

STATEMENT OF OPERATIONS

1984-85 POOL ACCOUNT—DESIGNATED BARLEY
FOR THE PERIOD AUGUST 1, 1984, TO COMPLETION OF OPERATIONS ON SEPTEMBER 30, 1985
(with prior year figures for the 1983-84 Pool Account for comparison)

EXHIBIT VII

	1984-85		1983-84	
	Tonnes	Amount $	Tonnes	Amount $
Designated Barley acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	712,195	111,703,201	1,004,377	139,939,761
Designated Barley sold				
Completed sales to July 31 basis in store Thunder Bay or Vancouver	661,381	124,998,887	959,264	161,150,487
Designated Barley stocks—Being Designated Barley stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay or Vancouver				
Completed sales for the period subsequent to July 31	50,814	10,117,349	45,113	7,686,257
	712,195	135,116,236	1,004,377	168,836,744
Surplus on Designated Barley transactions		23,413,035		28,896,983
Operating costs				
Interest		(2,527,411)		(3,836,353)
Interest and depreciation on Canadian Wheat Board hopper cars		447,320		468,910
Wheat Board administrative and general expenses		828,398		883,164
		(1,251,693)		(2,484,279)
Surplus on operations of the Board on the Pool Account—Designated Barley, for the period from August 1, 1984, to September 30, 1985 (1983-84 October 31, 1984)		24,664,728		31,381,262

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF ADMINISTRATIVE AND GENERAL EXPENSES AND ALLOCATIONS TO OPERATIONS FOR THE YEAR ENDED JULY 31, 1985
(with prior year figures for comparison)

EXHIBIT VIII

	1984-85	1983-84
	$	$
Administrative and General Expenses		
Salaries—Board members, officers and staff	15,131,273	14,686,316
Unemployment insurance, pension, group insurance, medical and other employee benefits	1,964,496	1,735,497
Manitoba Health and Education Tax	235,956	212,116
Advisory Committee—Travelling expenses and per diem allowances	79,197	76,758
Rental and lighting of offices including maintenance of The Canadian Wheat Board Building	1,424,092	1,475,438
Telephones—Exchange service and long distance calls	354,578	368,022
Telegrams, cables and telex expense	141,293	160,557
Postage	583,765	666,414
Printing, stationery and supplies	642,392	642,284
Annual report, mini report and "Grain Matters", etc.	156,284	152,638
District meetings	19,452	16,588
Office expense	505,709	692,626
Travelling and transfer of staff	847,801	760,513
Travelling expenses—Inspectors	184,653	217,726
Legal fees and court costs	31,629	28,791
Audit fees	91,000	91,000
Computing equipment—Rental and sundries	2,383,997	1,725,593
Repair and upkeep of office machines and equipment	49,545	67,923
Grain market publications and services	80,635	75,726
The Canadian Wheat Board share of operating expenses of Canadian International Grains Institute	882,131	822,506
Bonds and insurance	29,993	27,792
Winnipeg Commodity Exchange dues	12,820	12,670
Depreciation on building, furniture, equipment and automobiles	274,440	352,402
	26,107,131	25,067,896

	1984-85		1983-84
	$		$
Allocations to Operations			
1. Marketing of Producers' Grain			
1984-85 Pool Account—Wheat	9,945,954		
1984-85 Pool Account—Durum	1,097,271		
1984-85 Pool Account—Oats	33,561		
1984-85 Pool Account—Designated Oats	27,160		
1984-85 Pool Account—Barley	1,884,744		
1984-85 Pool Account—Designated Barley	437,451		
1983-84 Pool Account—Wheat	8,223,307		
1983-84 Pool Account—Durum	927,992		
1983-84 Pool Account—Oats	22,563		
1983-84 Pool Account—Designated Oats	16,304		
1983-84 Pool Account—Barley	1,632,588		
1983-84 Pool Account—Designated Barley	409,140		
	24,658,035		23,708,599
2. Distributing Final Payments to Producers			
(a) Wheat and Durum			
1983-84 Pool Account—Wheat	207,528		
1983-84 Pool Account—Durum	30,131		
1982-83 Pool Account—Wheat	40,966		
1982-83 Pool Account—Durum	6,533		
1981-82 Pool Account—Wheat	7,496		
1981-82 Pool Account—Durum	1,020		
1980-81 Pool Account—Wheat	4,114		
1980-81 Pool Account—Durum	563		
1979-80 Pool Account—Wheat	4,855		
1979-80 Pool Account—Durum	664		
1978-79 Pool Account—Wheat	3,752		
1978-79 Pool Account—Durum	513		
	308,135		274,765
(b) Coarse Grains			
1983-84 Pool Account—Oats	15,638		
1983-84 Pool Account—Designated Oats	2,710		
1983-84 Pool Account—Barley	74,931		
1983-84 Pool Account—Designated Barley	12,436		
1982-83 Pool Account—Oats	5,285		
1982-83 Pool Account—Designated Oats	634		
1982-83 Pool Account—Designated Barley	11,134		
1981-82 Pool Account—Designated Oats	2,045		
1981-82 Pool Account—Barley	4,393		
1981-82 Pool Account—Designated Barley	773		
1980-81 Pool Account—Oats	1,112		
1980-81 Pool Account—Barley	2,439		
1980-81 Pool Account—Designated Barley	430		
1979-80 Pool Account—Barley	2,869		
1979-80 Pool Account—Designated Barley	503		
1978-79 Pool Account—Oats	1,025		
1978-79 Pool Account—Barley	2,210		
1978-79 Pool Account—Designated Barley	394		
	140,961		84,532
3. Allocation authorized by Order-in-Council from Special Account—Undistributed Payment Accounts in partial payment of Administrative and General Expense incurred in respect of the Prairie Grain Advance Payments Act	1,000,000		1,000,000
	26,107,131		25,067,896

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF ADVANCE PAYMENTS TO PRODUCERS UNDER THE PRAIRIE GRAIN ADVANCE PAYMENTS ACT AS AT JULY 31, 1985

EXHIBIT IX

	Cash Advances to Producers	Advances Repaid by Producers	Balance to be Refunded by Producers
	$	$	$
1957-58 Crop Year	35,203,467	35,200,848	2,619
1958-59 Crop Year	34,369,653	34,366,768	2,885
1959-60 Crop Year	38,492,505	38,490,056	2,449
1960-61 Crop Year	63,912,550	63,904,499	8,051
1961-62 Crop Year	16,656,713	16,651,008	5,705
1962-63 Crop Year	29,251,526	29,245,974	5,552
1963-64 Crop Year	62,136,418	62,129,676	6,742
1964-65 Crop Year	32,961,844	32,955,723	6,121
1965-66 Crop Year	40,600,386	40,596,508	3,878
1966-67 Crop Year	36,668,270	36,664,915	3,355
1967-68 Crop Year	47,280,533	47,277,263	3,270
1968-69 Crop Year	151,852,319	151,770,940	81,379
1969-70 Crop Year	272,777,516	272,475,345	302,171
1970-71 Crop Year	91,105,890	91,076,240	29,650
1971-72 Crop Year	68,142,360	68,104,534	37,826
1972-73 Crop Year	20,754,104	20,743,229	10,875
1973-74 Crop Year	35,259,387	35,219,656	39,731
1974-75 Crop Year	46,635,399	46,602,209	33,190
1975-76 Crop Year	20,236,528	20,208,199	28,329
1976-77 Crop Year	130,592,220	130,470,100	122,120
1977-78 Crop Year	119,090,916	118,909,208	181,708
1978-79 Crop Year	151,316,450	151,189,627	126,823
1979-80 Crop Year	99,146,581	99,054,697	91,884
1980-81 Crop Year	61,640,150	61,591,275	48,875
1981-82 Crop Year	333,688,190	333,089,537	598,653
1982-83 Crop Year	309,022,755	307,774,142	1,248,613
1983-84 Crop Year	286,736,519	284,765,718	1,970,801
1984-85 Crop Year	201,308,812	189,417,363	11,891,449
	2,836,839,961	2,819,945,257	
Balance to be refunded by Producers as at July 31, 1985		16,894,704	
Add: bank interest to July 31, 1985 payable by the Government of Canada		105,734,059	
Less: amount paid to July 31, 1985		105,664,187	69,872
			16,964,576
Deduct: balance of funds received to cover advance payments in default			
Government of Canada		1,113,035	
Line Elevator Companies		71,703	
Interest received on default payments		10,341,430	11,526,168
Owing to the Canadian Wheat Board as at July 31, 1985			5,438,408

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF SPECIAL ACCOUNT TRANSACTIONS
FOR THE YEAR ENDED JULY 31, 1985

EXHIBIT X

	$	$
Balance of Special Account as at July 31, 1984		5,778,515
Transfer to Special Account authorized by Order-in-Council P.C. 1985-2261 from the following		
1977 Wheat Payment Account	812,614	
1977 Barley Payment Account	296,826	
1977 Designated Barley Payment Account	87,391	1,196,831
		6,975,346

Expenditures

Authorized by Order-in-Council No.	Description of Purpose	Unexpended as at July 31, 1984	Authorized Crop Year 1984-85	Unexpended as at July 31, 1985	Expended Crop Year 1984-85	
		$	$	$	$	
P.C. 1985-2262	Remote Sensing Crop Monitoring Project		33,000	33,000		
P.C. 1985-1946	General Promotion and Overseas Advertising	124,454	140,000	176,009	88,445	
P.C. 1985-1945	Customer Mission Program	282,951	360,000	568,515	74,436	
P.C. 1984-2642	Market Development	500,000		359,167	140,833	
P.C. 1984-1185	50th Anniversary	224,226			224,226	
P.C. 1983-3764	Canadian HY320 Wheat Testing Program	28,298		22,510	5,788	
P.C. 1983-2007	Canadian International Grains Institute Capital Expenditures	86,288		69,539	16,749	
P.C. 1983-2003	Joint Policy Coordinating Committee of Canada and United States Wheat Producers	90,030		88,133	1,897	
P.C. 1983-806	Prairie Grain Advance Payment Act—Administration	1,000,000			1,000,000	
P.C. 1981-3436	Scholarship and Assistantship Program	36,517	243,483	30,142	249,858	
		2,372,764	776,483	1,347,015	1,802,232	
						1,802,232
						5,173,114
Less: payments to producers against old payment accounts						1,558
Balance of Special Account as at July 31, 1985						5,171,556

As at July 31, 1985 there were unexpended authorizations totalling $1,347,015 leaving an unexpended balance of $3,824,541 in the Account.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS

The Financial Statements of the Canadian Wheat Board including notes thereto for the crop year consist of the Balance Sheet (Exhibit I), which sets forth the financial position of the Board as at July 31, 1985, together with other statements (Exhibits II to X) showing the results of Board operations for the year.

The practice of the Board is to include in its accounts at July 31, the final operating results of pool accounts when marketing operations have been completed before the issuance of the annual report. Operations on the 1984-85 Pool Accounts for Wheat, Amber Durum Wheat, Designated Oats, Barley and Designated Barley were completed on September 30, 1985 and for Oats on November 15, 1985. Details of the final operating results of these pool accounts with commentary thereon are presented in this section of the report.

Although the basic measurement for grain has been the "tonne" since February 1, 1978, for your information a tonne equals 36.74371 bushels of Wheat, 64.84183 bushels of Oats or 45.92963 bushels of Barley.

Pool Account — Wheat

Initial Payments

During the crop year the Board was authorized to purchase wheat from producers at a fixed initial price of $170.00 per tonne for No. 1 Canada Western Red Spring.

Supplies of Wheat

Supplies of wheat in the 1984-85 Pool were 16,768,797 tonnes, comprised of 16,192,572 tonnes delivered by producers, 93,765 tonnes acquired from other than producers and 482,460 tonnes purchased from the previous pool.

Grade Pattern

Deliveries of grain to the 1984-85 Pool Account were of marginally higher quality compared with receipts in the previous pool. Deliveries of Nos. 1 and 2 Canada Western Red Spring totalled 13.288 million tonnes or 82.06 per cent of total receipts, while No. 3 Canada Western Red Spring receipts of 1.505 million tonnes amounted to 9.29 per cent of total receipts.

Deliveries of Utility grades including Canada Feed amounted to .410 million tonnes or 2.54 per cent of total producer deliveries. Approximately 1.29 per cent of producer deliveries graded tough while .14 per cent graded damp.

Final Statement of Operations and Surplus for Distribution to Producers — Wheat — Table A

Marketing operations on the Pool Account for Wheat resulted in an operating surplus of $298,637,686. After allowing for the cost of issuing the final payment and adding estimated interest earnings subsequent to September 30, 1985, the net surplus for distribution to producers amounted to $306,083,979. This represents an average of $18.903 on producer deliveries of 16,192,572 tonnes. Table B shows the total price realized by producers at $186.373 for No. 1 CW Red Spring, comparable with $193.980 for the previous pool.

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS ON THE 1984-85 POOL ACCOUNT — WHEAT FOR THE PERIOD AUGUST 1, 1984, TO SEPTEMBER 30, 1985
(with prior year figures for the 1983-84 Pool Account for comparison)

TABLE A

	1984-85 Pool Account		1983-84 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	16,192,572 tonnes		20,186,978 tonnes	
	$	$	$	$
Sales value	3,181,675,758	196.490	3,975,923,801	196.955
Initial payments to producers	2,722,955,091	168.161	3,352,896,639	166.092
Gross Surplus	458,720,667	28.329	623,027,162	30.863
Deduct Operating Costs				
Carrying charges				
Country elevators	88,292,322	5.453	89,905,467	4.453
Terminal storage	28,079,232	1.734	18,909,270	.937
Total Carrying Charges	116,371,554	7.187	108,814,737	5.390
Bank interest and net interest on other Board accounts	12,300,778	.760	(3,463,630)	(.172)
Demurrage	(2,416,042)	(.149)	(435,169)	(.022)
Additional freight—To terminals	5,606,478	.346	2,422,929	.120
—Freight rate change	(2,608,292)	(.161)	8,246,530	.409
Handling and stop-off	1,055,877	.065	(49,462)	(.002)
Drying	767,681	.047	1,713,617	.085
Interest and depreciation on Wheat Board hopper cars	10,170,355	.628	9,424,620	.467
Wheat Board administrative expenses	18,834,592	1.163	17,750,708	.879
Total Operating Costs	160,082,981	9.886	144,424,880	7.154
Surplus on Operations	298,637,686	18.443	478,602,282	23.709
Add: interest earned after September 30 (1983-84 October 31)	7,590,715	.469	11,883,105	.588
Deduct: cost of issuing final payment	144,422	.009	158,424	.008
Surplus for Distribution to Producers	306,083,979	18.903	490,326,963	24.289

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

TOTAL PAYMENTS RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF WHEAT BASIS IN STORE THUNDER BAY OR VANCOUVER — TABLE B

Grade	Initial payments	Final payments	Total
	(dollars per tonne)		
Red Spring Wheat Grades			
No. 1 Canada Western Red Spring	170.00	16.373	186.373
No. 2 Canada Western Red Spring	164.21	19.899	184.109
No. 3 Canada Western Red Spring	159.21	12.297	171.507
No. 1 Canada Utility	155.21	12.297	167.507
No. 2 Canada Utility	141.21	14.297	155.507
Canada Feed	138.21	3.297	141.507
No. 1 Canada Western Red Winter	159.21	12.297	171.507
No. 2 Canada Western Red Winter	156.21	13.297	169.507
No. 1 Canada Western Soft White Spring	147.21	19.297	166.507
No. 2 Canada Western Soft White Spring	144.21	21.297	165.507

Operating Costs

Operating costs incurred applicable to the pool were $160,082,981 or $9.886 per tonne. Details of the principal costs and comment thereon follows:

Carrying Charges — $116,371,554

Total carrying charges incurred by the Board, including storage and interest charges on wheat in country elevators and storage on wheat in terminal elevators amounted to $116,371,554 or $7.187 per tonne.

Bank Interest and Net Interest on Other Board Accounts — $12,300,778

This consists mainly of bank interest and interest paid to or received from other Board accounts. Interest paid, exceeded interest earned by $12,300,778 or $.760 per tonne.

Additional Freight — To Terminals — $5,606,478 — Freight Rate Change — ($2,608,292)

During the crop year the Board paid $5,606,478 of additional freight arising out of the movement of grain in adverse direction.

With the abolition of the Crow's Nest Pass freight rate on December 31, 1983, freight rates increased by approximately 18% on January 1, 1984 with a further increase of approximately 31% on August 1, 1984. However, on August 1, 1985 freight rates declined by approximately 22% and the Board collected the resulting freight saved on the country stocks held by its agents on August 1, 1985 amounting to $2,608,292 in the Wheat account.

Drying Charges — $767,681

Drying charges for 1984-85 totalled $767,681, a significant decrease from the previous year, reflecting the lower percentages of tough and damp grain delivered to the pool under review.

Interest and Depreciation on Wheat Board Hopper Cars — $10,170,355

Costs for the use of the Board's 2,000 hopper cars include depreciation and interest. Hopper car expenses attributable to the 1984-85 Wheat Account totalled $10,170,355 compared to $9,424,620 for the previous pool.

Pool Account — Amber Durum Wheat

Initial Payments

During the crop year the Board was authorized to purchase wheat from producers at a fixed initial price of $180.00 per tonne for No. 1 Canada Western Amber Durum Wheat.

Supplies of Amber Durum Wheat

Supplies of Amber Durum Wheat in the 1984-85 Pool were 1,794,691 tonnes, comprised of 1,786,421 tonnes delivered by producers and 8,270 tonnes acquired from other than producers.

Grade Pattern

Receipts of Nos. 1, 2 and 3 Canada Western Amber Durum totalled 1.769 million tonnes or 99.01 per cent of total producer deliveries. The tough and damp grades delivered amounted to .11 per cent of the total receipts.

Final Statement of Operations and Surplus for Distribution to Producers — Amber Durum Wheat — Table C

Table C shows the operating results of the Pool Account for the crop year. Marketing operations resulted in a surplus of $41,422,295. Operating expenses totalled $15,588,778 for the year or $8.726 per tonne. The principal cost was carrying charges amounting to $11,960,477 or $6.695 per tonne. After allowing for the cost of issuing the final payment and estimated interest earnings subsequent to September 30, 1985, the net surplus for distribution to producers was $42,448,995. This represents an overall average of $23.762 per tonne on producer deliveries of 1,786,421 tonnes. Table D shows the total payment received by producers for the principal grades of Amber Durum Wheat delivered during the crop year. This table shows the total price realized by producers for No. 1 Canada Western Amber Durum Wheat of $204.853 per tonne, compared to $204.043 per tonne for the previous pool.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS ON THE 1984-85 POOL ACCOUNT—AMBER DURUM WHEAT FOR THE PERIOD AUGUST 1, 1984, TO SEPTEMBER 30, 1985
(with prior year figures for the 1983-84 Pool Account for comparison)

TABLE C

	1984-85 Pool Account		1983-84 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	1,786,421 tonnes		2,278,079 tonnes	
	$	$	$	$
Sales value	376,051,666	210.506	475,588,757	208.767
Initial payments to producers	319,040,593	178.592	406,403,268	178.397
Gross Surplus	57,011,073	31.914	69,185,489	30.370
Deduct Operating Costs				
Carrying charges				
Country elevators	7,863,782	4.402	10,884,477	4.778
Terminal storage	4,096,695	2.293	2,442,679	1.072
Total carrying charges	11,960,477	6.695	13,327,156	5.850
Interest	2,045,742	1.145	(274,924)	(.120)
Demurrage	(1,748,659)	(.979)	1,495,075	.656
Additional freight —To terminals	239,158	.134	269,658	.118
—Freight rate changes	(115,901)	(.065)	701,687	.308
Handling and stop-off			3,642	.002
Drying	8,037	.005	2,793	.001
Interest and depreciation on Wheat Board hopper cars	1,122,027	.628	1,063,558	.467
Wheat Board administrative expenses	2,077,897	1.163	2,003,149	.879
Total Operating Costs	15,588,778	8.726	18,591,794	8.161
Surplus on Operations	41,422,295	23.188	50,593,695	22.209
Add: interest earned after September 30 (1983-84 October 31)	1,052,864	.589	1,256,179	.551
Deduct: cost of issuing final payment	26,164	.015	24,141	.010
Surplus for Distribution to Producers	42,448,995	23.762	51,825,733	22.750

TOTAL PAYMENTS RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF AMBER DURUM WHEAT BASIS IN STORE THUNDER BAY OR VANCOUVER

TABLE D

Grade	Initial payments	Final payments	Total
	(dollars per tonne)		
Amber Durum Wheat Grades			
No. 1 Canada Western Amber Durum	180.00	24.853	204.853
No. 2 Canada Western Amber Durum	177.21	22.643	199.853
No. 3 Canada Western Amber Durum	175.21	19.643	194.853
No. 4 Canada Western Amber Durum	159.21	20.643	179.853
No. 5 Canada Western Amber Durum	153.21		153.210

Pool Account—Oats

Commencing August 1, 1981, as authorized by Order-in-Council, oats selected and accepted from producers for use in processing and milling for human consumption, has been set up in a separate pool under the caption "Designated Oats". As a result, the transactions described here consist mainly of marketing results related to feeding grades of oats.

Initial Payments

During the crop year the Board was authorized to purchase oats from producers at a fixed initial price of $100.00 per tonne for No. 1 Feed Oats.

Grade Pattern

Deliveries of Nos. 1 and 2 Canada Western Oats comprised .44 per cent of producer deliveries with feeding grades constituting the remaining 99.56 per cent of total receipts. Board receipts of tough and damp oats made up 3.04 per cent of deliveries.

Final Statement of Operations and Surplus for Distribution to Producers—Oats—Table E

Table E shows the operating results of the Pool Account for the 1984-85 crop year. Marketing operations resulted in a surplus of $675,422. Operating expenses totalled $599,910 or $10.979 per tonne. The principal cost was carrying charges amounting to $479,869 or $8.783 per tonne. After allowing for the cost of issuing the final payment and estimated interest earnings subsequent to November 15, 1985, the net surplus for distribution to producers was $688,372 which represents an overall average of $12.599 per tonne on producer deliveries of 54,639 tonnes. Table F shows the total payment received by producers for the principal grades of oats delivered during the crop year.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS ON THE 1984-85 POOL ACCOUNT—OATS FOR THE PERIOD AUGUST 1, 1984, TO NOVEMBER 15, 1985
(with prior year figures for the 1983-84 Pool Account for comparison)

TABLE E

	1984-85 Pool Account		1983-84 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	54,639 tonnes		55,389 tonnes	
	$	$	$	$
Sales value	6,691,733	122.472	6,738,895	121.664
Initial payments to producers	5,416,401	99.131	5,496,654	99.237
Gross Surplus	1,275,332	23.341	1,242,241	22.427
Deduct Operating Costs				
Carrying charges				
Country elevators	285,692	5.229	374,439	6.760
Terminal storage	194,177	3.554	181,254	3.272
Total Carrying Charges	479,869	8.783	555,693	10.032
Interest	3,410	.062	20,530	.371
Additional freight—To terminal	98,106	1.796	177,403	3.203
—Freight rate changes	(84,660)	(1.550)	28,989	.523
Interest and depreciation on Wheat Board hopper cars	34,318	.628	25,859	.467
Wheat Board administrative expenses	68,867	1.260	48,705	.879
Total Operating Costs	599,910	10.979	857,179	15.475
Surplus on Operations	675,422	12.362	385,062	6.952
Add: interest earned after November 15 (1983-84 October 31)	17,168	.314	9,560	.173
Deduct: cost of issuing final payment	4,218	.077	3,859	.070
Surplus for Distribution to Producers	688,372	12.599	390,763	7.055

TOTAL PAYMENTS RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF OATS BASIS IN STORE THUNDER BAY OR VANCOUVER

TABLE F

Grade	Initial payments	Final payments	Total
	(dollars per tonne)		
Oats Grades			
No. 1 Canada Western	106.00	19.022	125.022
No. 2 Canada Western	104.00	19.022	123.022
Extra No. 1 Feed	102.00	12.605	114.605
No. 1 Feed	100.00	12.315	112.315
No. 2 Feed	95.92	13.395	109.315

Pool Account—Designated oats

Beginning with the crop year commencing on August 1, 1981, oats that have been delivered to the Board to be sold by the Board to purchasers who have selected and accepted the oats for use in processing and milling for human consumption, has been set up in a separate account. This account has been labelled "Designated Oats" and the results of operations on this account with comment thereon are contained in this section of the report.

Initial Payments

During the crop year the Board was authorized to purchase Designated Oats from producers at fixed initial prices of $140.00 and $138.00 per tonne for Nos. 1 and 2 Canada Western Oats respectively and $134.00 per tonne for No. 1 Feed Oats.

Supplies and Grade Pattern

Supplies of oats in the designated pool were 44,219 tonnes representing deliveries to the Board by producers during the crop year of oats which were selected and accepted by purchasers for use in processing and milling for human consumption. Receipts of Nos. 1 and 2 Canada Western Oats totalled 30,019 tonnes or 67.89 per cent of total deliveries. Feeding grades totalled 14,200 tonnes or 32.11 per cent of total receipts.

Final Statement of Operations and Surplus for Distribution to Producers—Designated Oats—Table G

Table G shows the operating results of this pool account for the crop year. Marketing operations resulted in a surplus of $813,196. As to operating costs, it should be noted that the Designated Oats Pool, by its very nature does not incur the handling expenses normally related to feeding grades of oats. It is not stored by the Board, being selected by the purchaser and shipped at his request from farm to processing plant via the country elevator. As a result, the only expenses incurred attributable to such oats were costs related to hopper cars owned by the Wheat Board and administrative charges totalling $79,207 or $1.791 per tonne. These expenses were more than offset by interest earnings of $95,397 or $2.157 per tonne on the accumulating surplus in the pool. After providing for the cost of issuing the final payment and adding estimated interest earnings subsequent to September 30, 1985, the net surplus for distribution to producers was $833,202 or $18.843 per tonne on producer deliveries of 44,219 tonnes. Table H shows the total payment received by producers for the principal grades of Designated Oats delivered during the crop year.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS ON THE 1984-85 POOL ACCOUNT—DESIGNATED OATS FOR THE PERIOD AUGUST 1, 1984, TO SEPTEMBER 30, 1985
(with prior year figures for the 1983-84 Pool Account for comparison)

TABLE G

	1984-85 Pool Account		1983-84 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from Producers	44,219 tonnes		40,023 tonnes	
	$	$	$	$
Sales value	6,858,685	155.108	6,067,327	151.596
Initial prices paid to producers	6,061,679	137.084	5,498,760	137.390
Gross Surplus	797,006	18.024	568,567	14.206
Deduct Operating Costs				
Interest and bank charges	(95,397)	(2.157)	(77,206)	(1.929)
Interest and depreciation on Wheat Board hopper cars	27,773	.628	18,685	.467
Wheat Board administrative expenses	51,434	1.163	35,193	.879
Total Operating Costs	(16,190)	(.366)	(23,328)	(.583)
Surplus on Operations	813,196	18.390	591,895	14.789
Add: interest earned after September 30 (1983-84 October 31)	20,670	.468	14,696	.367
Deduct: cost of issuing final payment	664	.015	612	.015
Surplus for Distribution to Producers	833,202	18.843	605,979	15.141

TOTAL PAYMENTS RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF DESIGNATED OATS BASIS IN STORE THUNDER BAY OR VANCOUVER

TABLE H

Grade	Initial payments	Final payments	Total
	(dollars per tonne)		
Oats Grades			
No. 1 Canada Western	140.00	20.746	160.746
No. 2 Canada Western	138.00	20.746	158.746
Extra No. 1 Feed	136.00	16.246	152.246
No. 1 Feed	134.00	14.246	148.246

Pool Account—Barley

Since August 1, 1975, as authorized by Order-in-Council, barley selected and accepted from producers for the use of malting, pot or pearling, has been set up in a separate pool under the caption "Designated Barley". As a result, the transactions remaining in the Barley Pool Account described here consist mainly of marketing results related to feeding grades of barley.

Initial Payments

At the beginning of the crop year the Board was authorized to purchase barley from producers at a fixed initial price of $110.00 per tonne for No. 1 Feed Barley. Effective November 19, 1984, the initial price for No. 1 Feed Barley was increased to $125.00 per tonne.

Supplies and Grade Pattern

Supplies in the regular Feed Barley pool were 3,085,525 tonnes comprised of 3,068,472 tonnes delivered by producers and 17,053 tonnes acquired from other than producers. Deliveries of Nos. 1 and 2 Feed Barley comprised 98.21 per cent of the producer deliveries in the pool. Board receipts of tough and damp barley made up 3.91 per cent of deliveries.

Final Statement of Operations and Surplus for Distribution to Producers—Barley—Table I

Table I shows the operating results of the Pool Account for the crop year. Marketing operations resulted in a surplus of $19,066,956. Operating expenses totalled $13,401,539 for the year or $4.367 per tonne. The principal cost was carrying charges amounting to $8,080,834 or $2.634 per tonne. After allowing for the cost of issuing the final payment and estimated interest earnings subsequent to September 30, 1985, the net surplus for distribution to producers was $19,497,704. This represents an overall average of $6.354 per tonne on producer deliveries of 3,068,472 tonnes. Table J shows the total payment received by producers for No. 1 Feed Barley as $131.297 per tonne.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS ON THE 1984-85 POOL ACCOUNT—BARLEY FOR THE PERIOD AUGUST 1, 1984, TO SEPTEMBER 30, 1985

(with prior year figures for the 1983-84 Pool Account for comparison)

TABLE I

	1984-85 Pool Account		1983-84 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from Producers	3,068,472 tonnes		4,007,756 tonnes	
	$	$	$	$
Sales value	414,730,903	135.159	557,270,427	139.048
Initial payments to producers	382,262,408	124.578	438,761,246	109.478
Gross Surplus	32,468,495	10.581	118,509,181	29.570
Deduct Operating Costs				
Carrying charges				
Country elevators	4,724,253	1.540	4,683,339	1.169
Terminal storage	3,356,581	1.094	2,246,162	.560
Total Carrying Charges	8,080,834	2.634	6,929,501	1.729
Interest	(1,306,516)	(.426)	(7,543,393)	(1.882)
Demurrage	(449,348)	(.147)	1,941,439	.484
Additional freight—To terminals	1,897,338	.618	902,833	.225
—Freight rate changes	(893,639)	(.291)	207,308	.052
Handling and stop-off	(52,098)	(.017)	(108,820)	(.027)
Drying	628,571	.205	275,505	.069
Interest and depreciation on Wheat Board hopper cars	1,927,267	.628	1,871,085	.467
Wheat Board administrative expenses	3,569,130	1.163	3,524,080	.879
Total Operating Costs	13,401,539	4.367	7,999,538	1.996
Surplus on Operations	19,066,956	6.214	110,509,643	27.574
Add: interest earned after September 30 (1983-84 October 31)	484,640	.158	2,743,818	.685
Deduct: cost of issuing final payment	53,892	.018	68,193	.017
Surplus for Distribution to Producers	19,497,704	6.354	113,185,268	28.242

TOTAL PAYMENTS RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF BARLEY BASIS IN STORE THUNDER BAY OR VANCOUVER

TABLE J

Grade	Initial payments	Final payments	Total
	(dollars per tonne)		
Barley Grades			
No. 1 Canada Western Six-Row	127.93	6.867	134.797
No. 2 Canada Western Six-Row	126.93	6.867	133.797
No. 2 Canada Western Two-Row	126.93	6.867	133.797
No. 1 Feed	125.00	6.297	131.297
No. 2 Feed	122.43	8.177	130.607

Pool Account — Designated Barley

As stated previously, since August 1, 1975, barley that has been delivered to the Board to be sold by the Board to purchasers who have selected and accepted the barley for the use of malting, pot or pearling, has been set up in a separate pool account. This account has been labelled "Designated Barley" and the results of operations on this account with comment thereon are contained in this section of the report.

Initial Payments

At the beginning of the crop year the Board was authorized to purchase Designated Barley from producers at a fixed initial price of $140.00 per tonne for No. 2 Canada Western Six-Row and No. 2 Canada Western Two-Row. Effective November 19, 1984, the initial price was increased to $155.00 and $165.00 per tonne for No. 2 Canada Western Six-Row and No. 2 Canada Western Two-Row respectively.

Supplies and Grade Pattern

Supplies of barley in the designated pool were 712,195 tonnes representing deliveries to the Board by producers during the crop year of barley which has been selected and accepted by purchasers for the use of malting, pot or pearling. Of these receipts 481,019 tonnes or 67.54 per cent were row grades and 231,176 tonnes or 32.46 per cent were feeding grades. Receipts of tough and damp grades totalled 4,422 tonnes or .62 per cent of total.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

Final Statement of Operations and Surplus for Distribution to Producers — Designated Barley — Table K

Table K shows the operating results of this pool account for the crop year. Marketing operations resulted in a surplus of $24,664,728. As to operating costs, it should be noted that the Designated Barley by its very nature does not incur the handling expenses normally related to feeding grades of barley or other grains. It is not stored by the Board, being selected by the processor (buyer) from a producer's sample and is shipped on buyer's call directly from farm to processing plant via the country elevator. As a result the only expenses incurred attributable to such barley were costs related to hopper cars owned by the Wheat Board and administrative charges totalling $1,275,718 or $1.791 per tonne. These expenses were more than offset by interest earnings of $2,527,411 or $3.549 per tonne on the accumulating surplus in the pool. After allowing for the cost of issuing the final payment and estimated interest earnings subsequent to September 30, 1985, the net surplus for distribution to producers was $25,284,020 or $35.501 per tonne on producer deliveries of 712,195 tonnes. This is compared to $32,149,480 or $32.009 per tonne for the previous year.

Table L shows the total payment received by producers for the principal grades of Designated Barley. The final return to producers for deliveries of No. 2 Canada Western Six-Row and No. 2 Canada Western Two-Row was $188.937 and $199.401 respectively, compared to $168.085 and $176.625 for these two grades respectively in the previous pool.

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS ON THE 1984-85 POOL ACCOUNT—DESIGNATED BARLEY FOR THE PERIOD AUGUST 1, 1984, TO SEPTEMBER 30, 1985
(with prior year figures for the 1983-84 Pool Account for comparison)

TABLE K

	1984-85 Pool Account		1983-84 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	712,195 tonnes		1,004,377 tonnes	
	$	$	$	$
Sales value	135,116,236	189.718	168,836,744	168.101
Initial payments to producers	111,703,201	156.844	139,939,761	139.330
Gross Surplus	23,413,035	32.874	28,896,983	28.771
Deduct Operating Costs				
Interest	(2,527,411)	(3.549)	(3,836,353)	(3.819)
Interest and depreciation on Wheat Board hopper cars	447,320	.628	468,910	.467
Wheat Board administrative expenses	828,398	1.163	883,164	.879
Total Operating Costs	(1,251,693)	(1.758)	(2,484,279)	(2.473)
Surplus on Operations	24,664,728	34.632	31,381,262	31.244
Add: interest earned after September 30 (1983-84 October 31)	626,923	.880	779,158	.776
Deduct: cost of issuing final payment	7,631	.011	10,940	.011
Surplus for Distribution to Producers	25,284,020	35.501	32,149,480	32.009

TOTAL PAYMENTS RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF DESIGNATED BARLEY BASIS IN STORE THUNDER BAY OR VANCOUVER

TABLE L

Grade	Initial payments	Final payments	Total
	(dollars per tonne)		
Designated Barley Grades			
No. 1 Canada Western Six-Row	156.27	33.667	189.937
No. 2 Canada Western Six-Row	155.00	33.937	188.937
No. 1 Canada Western Two-Row	166.27	34.131	200.401
No. 2 Canada Western Two-Row	165.00	34.401	199.401
No. 1 Feed Six-Row	151.77	34.667	186.437
No. 1 Feed Two-Row	151.77	45.131	196.901
No. 2 Feed Six-Row	149.77	33.267	183.037
No. 2 Feed Two-Row	149.77	43.731	193.501

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

NOTES TO FINANCIAL STATEMENTS

The following are an integral part of the financial statements.

1. Accounting Policies

(a) Operating Results and Valuation of Stocks of Grain

The annual accounts at July 31 include the final operating results of all pool accounts for the crop year ended July 31 when marketing operations have been completed before the issuance of the annual report for that year. In determining the surpluses available for distribution on such pools the accounts of the Board at July 31 include:

(i) the stocks of such grains on hand at that date at the values which were ultimately received from the sale thereof basis in store Thunder Bay, Vancouver or Churchill; and

(ii) provision for all expenses incurred or to be incurred before the sales proceeds are realized in cash or in bills of exchange, including a charge for the portion of administrative and general expenses to be incurred subsequent to July 31 but relating to the marketing and accounting for the grains in the various pools before they are closed.

For pool accounts for which marketing operations have not been completed before the issuance of the annual report, the unsold stocks at July 31 are valued at cost, which is the initial price paid to producers, and no provision is made for carrying costs, interest, and administrative expenses beyond that date. Any debit or credit balance in these accounts is carried on the balance sheet.

(b) Foreign Currency Translations

Bills of exchange receivable in United States funds which are covered by forward exchange contracts are translated at the contract rates. In all other cases, bills of exchange receivable and bank loans payable in United States funds are translated at the rate of exchange in effect as at the balance sheet date, as is also the liability for debentures repayable in United States funds.

Foreign exchange adjustments arising from conversion of bills of exchange and bank loans are included in operating results. Adjustments arising from conversion of debenture debt are amortized over the term of the debentures.

(c) Depreciation

The rates of depreciation being applied are intended to fully depreciate assets over their expected lives and are as follows:

Hopper cars	30 years
Office building	40 years
Office furniture and equipment	10 years
Automotive equipment	2 years

(to ⅓ residual value)

(d) Administration and General Expenses

Administration and general expenses, except for that portion of such expenses attributable to distributing final payments to producers, are allocated to the various pool account operations to which the services relate on the basis of the relative tonnage. Expenses attributable to final payments are allocated on the basis of the number of producers receiving payments from the various pool accounts.

2. Bills of exchange plus accrued interest

Of the total bills of exchange receivable, $1,499,477,966 (1984—$1,330,848,725) represents the Canadian equivalent of $1,111,053,626 (1984—$1,016,302,959) repayable in United States funds.

The balances receivable arise from sales of grain to Brazil, Egypt, German Democratic Republic, Haiti, Iraq, Israel, Mexico, Jamaica, Peru, Poland and Zambia. The terms call for payment in full within 36 months or less from time of shipment, except for Brazil, Haiti, Jamaica, Poland, Peru and Zambia where the Board, together with the Canadian Government, have agreed to reschedule certain receivables beyond their original maturity dates. Terms of such reschedulings call for payment of interest and the rescheduled debt within ten years. As at July 31, total reschedulings amounted to $482,697,222 including $39,170,783 which is the Canadian equivalent of $29,109,547 receivable in United States currency.

Poland is presently in the process of negotiating the rescheduling of its debt together with interest accrued thereon, matured and unpaid for the period January 1, 1982 to December 31, 1984, in accordance with a multi-lateral arrangement concluded between Poland and official creditors. Poland has not paid any principal or interest amounts matured in 1985 and will likely negotiate a separate rescheduling of this debt in 1986 in accordance with a further multi-lateral arrangement concluded between Poland and official creditors regarding this debt. As at July 31, 1985, unpaid amounts totalled $1,709,100,042 which includes the Canadian equivalent of $676,892,630 receivable in United States funds. Included in these totals is $1,436,807,409 including the Canadian equivalent of $539,059,681 receivable in United States funds, due and unpaid for the period January 1, 1982 to December 31, 1984. Principal and interest amounts matured in 1985 to the close of the current crop year, amounting to $142,690,698 including the Canadian equivalent of $96,515,883 receivable in United States funds, are included in the above total as well. The balance of the unpaid amount, totalling $129,601,935 including the Canadian equivalent of $41,317,066 receivable in United States funds, represents interest accrued and unpaid on the 1981 rescheduled debt, the debt for 1982-84 and unpaid 1985 maturities to the end of the crop year. While subject to certain repayment terms specified in the multi-lateral arrangement concluded between Poland and official creditors, this interest is not included in the principal portion of the rescheduled debt.

During the crop year the Government of Canada and other creditor nations agreed to a further rescheduling of Zambian debt that had earlier been rescheduled. Payments of principal and interest which fell due in 1984, totalling $6,967,336 were rescheduled in an agreement signed in June of 1985.

Also, during the year, the Government of Canada and other creditor nations agreed to reschedule over a ten year period certain obligations owing by Jamaica. The accounts of the Board at July 31, 1985 include $1,860,175 which will be subject to rescheduling under this arrangement.

Although no multi-lateral arrangements have been concluded to date, between Brazil, the Government of Canada and other creditor nations, Brazil has not made any payments against certain principal and interest amounts maturing in 1985 totalling $102,667,388 as at July 31, 1985. Once the multi-lateral arrangements are concluded, this amount is likely to be rescheduled as well.

Credit sales are made within limits established by the Government of Canada which guarantees the Board's borrowings incurred to finance such sales, both as to principal and interest. Because of these Guarantees the Board does not consider itself to be at risk should any of the unpaid amounts prove to be uncollectable; therefore, no provision is made in its accounts with respect to the possibility of debtors defaulting on their obligation.

THE CANADIAN WHEAT BOARD—*Concluded*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Concluded*

3. Accounts receivable

Settlement on amounts due from Board agents on sales completed as at July 31 were received shortly after that date. Sundry accounts receivable consists mainly of freight costs which are recovered on completed sales.

4. Covered Hopper Cars

The Board purchased 2,000 covered hopper cars in 1979-80 having an original cost of $90,555,623. Of these 2,000 cars, 22 cars have been wrecked and dismantled leaving 1,978 still in the fleet having an original cost of $89,559,511 with accumulated depreciation of $16,421,975 to July 31, 1985. The Board is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

5. Liability to banks

Details of bank borrowings are as follows:

	July 31	
	1985	1984
	$	$
Ordinary operations	224,554,171	150,914,705
Loans to finance credit sales	3,683,799,803	3,012,037,450
	3,908,353,974	3,162,952,155

Of the total liability $1,498,429,431 (1984—$1,329,541,729) represents the Canadian equivalent of $1,110,276,698 (1984—$1,015,304,871) repayable in United States funds.

The Board's borrowings from chartered banks are guaranteed by the Government of Canada.

6. Debentures payable

The debentures with a face value of U.S. $50,000,000 were issued on December 1, 1982, at a price of $99.50 per $100, and bear interest at 11¼% per annum payable each December 1. No principal repayments are required until maturity on December 1, 1990. Under certain circumstances the Board may redeem the debentures in whole or in part prior to maturity. Depending upon the particular circumstances giving rise to any early redemption, a premium may be payable on the principal amount redeemed.

The debentures are secured by a charge against grain held by the Board.

7. Liability to agents for grain purchased from producers

Grain companies acting in the capacity of agents of the Board accept deliveries from producers at country elevators and pay the producers on behalf of the Board based on the Board's initial price in effect. Settlement is not made by the Board for these purchases until delivery to the Board is completed by its Agents at terminal or mill position. Liability to agents amounting to $570,996,143 (1984—$826,390,827) represents the amount payable by the Board to its agents for 3,600,606 (1984—5,064,789) tonnes of wheat, amber durum wheat, oats and barley on hand at country elevator points and in transit at July 31 for which delivery to and settlement by the Board is to be completed subsequent to year end date.

8. Liability to agents for deferred cash tickets

Grain companies as agents of the Board deposit with the Board in trust the proceeds of deferred cash tickets issued for Board grain. These monies are returned to the grain companies to cover producer deferred cash tickets maturing predominately during the first days of the following calendar year.

9. Accrued expenses and accounts payable

This item principally comprises accrued carrying charges, storage, interest and transportation charges to July 31, 1985 together with all other unpaid sundry accounts as at the foregoing date. It also includes provisions for all charges relating to the marketing of Pool Accounts for wheat, amber durum wheat, designated oats, barley and designated barley for the period from August 1, 1985 to completion of operations on September 30, 1985 and for oats for the period from August 1, 1985 to completion of operations on November 15, 1985.

10. Special account — Net balance of undistributed payment accounts

In accordance with the provision of Section 30 of the Canadian Wheat Board Act the Governor in Council may authorize the Board to transfer to a Special Account the unclaimed balances remaining in payment accounts which have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor in Council upon the recommendations of the Board may deem to be for the benefit of producers.

11. Provision for final payment expenses

This represents the balance of the Board's reserve for final payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools are transferred to the special account by Order-in-Council.

12. Lease commitments

The Board, as an agent of Her Majesty in Right of Canada, is the lessor of 2,000 covered hopper cars for the Government of Canada. All lease costs are recoverable from the Government and are not a charge to the operations of the Board. Total payments associated with leases in the year ended July 31, 1985 amounting to $16,728,906 (1984—$16,166,224) have been recovered by the Board. Lease terms are for 20 and 25 years.

SUMMARY PAGE

CANAGREX

MANDATE

To promote, facilitate, and, when specifically requested, to engage in, the export of agricultural and food products from Canada.

BACKGROUND

Incorporated in 1983, the Corporation began operations in 1984. The government plans to dissolve the Corporation and transfer its operations to other government departments and agencies.

CORPORATION DATA

HEAD OFFICE	c/o Crown Corporations Directorate Treasury Board of Canada 140 O'Connor Street Ottawa, Ontario. K1A 0R5
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Wise, P.C., M.P.
DEPARTMENT	Agriculture
DATE AND MEANS OF INCORPORATION	The *Canagrex Act* (S.C. 1980-81-82-83 C.152).
CHIEF EXECUTIVE OFFICER	Vacant
CHAIRMAN	Vacant
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84
At the end of the period			
Total Assets	0.3	2.3	0.3
Obligations to the private sector	nil	nil	nil
Obligations to Canada	nil	nil	nil
Equity of Canada	0.2	1.8	0.2
Cash from Canada in the period			
— budgetary	nil	5.4	0.7
— non-budgetary	nil	nil	nil

CANAGREX

AUDITOR'S REPORT

THE HONOURABLE JOHN WISE, P.C., M.P.
MINISTER OF AGRICULTURE

I have examined the balance sheet of Canagrex as at March 31, 1986 and the statements of operations and surplus and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of Canagrex as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canagrex Act and the by-laws of the Corporation.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 23, 1986

BALANCE SHEET AS AT MARCH 31, 1986

ASSETS	1986	1985
	$	$
Current		
Cash	286,915	2,189,682
Accounts receivable	14,140	17,221
	301,055	2,206,903
Fixed assets, net		
Office furniture and equipment		75,000
Leasehold improvements		1
	301,055	2,281,904

LIABILITIES	1986	1985
	$	$
Current		
Accounts payable and accrued liabilities	147,120	435,626
EQUITY OF CANADA		
Surplus	153,935	1,846,278
	301,055	2,281,904

Approved by the Board:

J. P. CONNELL
Director

R. A. KILPATRICK
Director

CANAGREX—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Revenue		
Interest income	148,123	140,637
Guarantee fees	3,450	88,903
	151,573	229,540
Expenses		
Office and equipment rentals	136,624	420,519
Lease termination	90,820	
Salaries and benefits	85,596	1,590,564
Professional fees	11,295	27,892
Telephone, telex and postage	12,997	122,916
Directors fees and expenses	7,703	50,569
Travel and entertainment	6,040	182,664
Stationery, supplies and library	3,519	66,763
Employee termination payments		715,582
Employee relocation		206,937
Advertising and promotion		153,847
Depreciation and amortization		96,124
Contributions and grants—Net of amounts recovered		18,377
Miscellaneous	3,412	18,472
	358,006	3,671,226
Cost of operations	206,433	3,441,686
Parliamentary appropriation		5,400,000
(Deficiency) excess of parliamentary appropriation over cost of operations	(206,433)	1,958,314
Provision to write down fixed assets and leasehold improvements to estimated realizable value		(301,202)
Gain on sale of fixed assets	27,958	
Adjustment on settlement of termination benefits	136,132	
	(42,343)	1,657,112
Surplus, beginning of year	1,846,278	189,166
Repayment of surplus to the Consolidated Revenue Fund	(1,650,000)	
Surplus, end of year	153,935	1,846,278

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Operations		
Funds provided by (used in) operating activities		
Cost of operations before interest income	(354,556)	(3,582,323)
Adjustment on settlement of termination benefits	136,132	
	(218,424)	(3,582,323)
Investments		
Funds provided by (used in) investing activities		
Interest on bank deposits	148,123	140,637
Disposal of fixed assets	102,959	96,124
Purchase of fixed assets		(426,322)
	251,082	(189,561)
Financing		
Funds provided by (used in) financing activities		
Parliamentary appropriation		5,400,000
Repayment of surplus to the Consolidated Revenue Fund	(1,650,000)	
	(1,650,000)	5,400,000
(Decrease) increase in working capital	(1,617,342)	1,628,116
Working capital, beginning of year	1,771,277	143,161
Working capital, end of year	153,935	1,771,277
Working capital represented by		
Current assets	301,055	2,206,903
Current liabilities	147,120	435,626
	153,935	1,771,277

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1986

1. The Corporation

The Corporation was established in June 1983 under the CANAGREX Act and commenced operations in January 1984. It is a Crown corporation named in Part I of Schedule C to the Financial Administration Act.

The purpose of CANAGREX was to assist Canadian producers and processors to increase their exports of food and agricultural products. The Corporation worked with the private and public sectors to promote, facilitate and engage in the export of agricultural products and services and food products and services.

It was announced by the Minister of Finance, on November 8, 1984, that the Canagrex programme was to be discontinued. Since then the Corporation has been engaged in the winding-up of its affairs. Bill C-42, "An Act to dissolve Canagrex and to amend certain Acts in consequence thereof" is presently before Parliament. If proclaimed, the Bill will result in the orderly liquidation of the Corporation.

The President of the Corporation, the only remaining full-time employee, resigned in September 1985.

Canagrex no longer has any employees. The Board of Directors remains intact to deal with statutory requirements pending the dissolution of the Corporation, which is being administered, without charge, by officials of the Department of Agriculture.

CANAGREX—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

2. Significant accounting policies

Fixed assets

Fixed assets were recorded at cost less accumulated depreciation. Leasehold improvements were amortized using the straight-line method over the period of the lease with no allowance being made for any optional lease extension. Furniture and fixtures were depreciated using the diminishing balance method at an annual rate of 20%. Depreciation was provided for a full year on assets acquired in the year.

All fixed assets were disposed of during the year (see Note 3).

Pension plan

The Corporation's employees participated in the Public Service Superannuation Plan. Contributions to the Plan were made equally by both employees and the Corporation, and these contributions in respect of current service were expensed during the year in which the services were rendered.

3. Fixed assets

In view of the anticipated discontinuation of the Corporation, fixed assets and leasehold improvements were written down to their estimated realizable value as at March 31, 1985.

The subsequent sale of these assets during the year resulted in proceeds in excess of this estimated realizable value by $27,958. There were no proceeds received for the leasehold improvements.

4. Provision for employee termination benefits

Due to the anticipated winding-up, the Corporation gave notice of termination of employment, effective March 29, 1985, to its employees. Varying termination settlements have been made with all of the employees. For one employee, provision has been made for the anticipated costs of termination benefits, the payment of all or part of which will depend on that employee ceasing to be employed in the public service through to May 15, 1990.

SUMMARY PAGE

CAPE BRETON DEVELOPMENT CORPORATION

MANDATE

To operate, reorganize and rationalize coal production from the Sydney coal field. To broaden the economic base and develop new job opportunities on Cape Breton Island.

BACKGROUND

Originally established in 1967 to close down the Cape Breton coal mining industry with minimum dislocation, the Coal Division is still the major employer in the Sydney/Glace Bay area. A resurgence in coal demand locally for power generation has led to an expanded and modernized industry employing approximately 3,600. In addition to the Prince and Lingan mines, the Corporation operates a coal preparation plant, a complete rail transportation system and a shipping pier. A new Phalen colliery is scheduled for completion by mid-1987 increasing production capacity to over 4 million tonnes.

The Industrial Development Division was created under the *Cape Breton Development Corporation Act* to develop alternative employment opportunities and broaden the base of the local economy. In conjunction with Enterprise Cape Breton and other federal and provincial initiatives, this Division promotes and assists the financing and development of industry on Cape Breton Island through a wide-range of assistance instruments.

CORPORATION DATA

HEAD OFFICE	P.O. Box 2500 Sydney, Nova Scotia B1P 6K3
TATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Michel Côté, P.C., M.P.
DEPARTMENT	Regional Industrial Expansion
DATE AND MEANS OF INCORPORATION	*Cape Breton Development Corporation Act* (R.S.C. 1970, C. C-13).
CHIEF EXECUTIVE OFFICER	Derek Rance
CHAIRMAN	Teresa MacNeil
AUDITOR	Touche, Ross and Co.

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	454	397	359	324
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	3	13	11	nil
Equity of Canada	401	335	306	290
Cash from Canada in the period				
— budgetary	120	108	110	96
— non-budgetary	(10)	2	11	nil

CAPE BRETON DEVELOPMENT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE
THE MINISTER OF REGIONAL INDUSTRIAL EXPANSION

We have examined the balance sheet and the statement of equity of the Coal Division and of the Industrial Development Division of the Cape Breton Development Corporation as at March 31, 1986, and the related income and operating statements and the statements of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The financial statements of the Industrial Development Division and of its subsidiaries have been presented on a consolidated basis. As required by the provisions of the Cape Breton Development Corporation Act, the financial statements of the Coal Division and of the Industrial Development Division are being presented separately.

In our opinion, these financial statements present fairly the financial position of the Coal Division and of the Industrial Development Division of the Cape Breton Development Corporation as at March 31, 1986, and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and its regulations, and the Cape Breton Development Corporation Act and the by-laws of the Corporation.

Touche Ross & Co.
Chartered Accountants

Sydney, Canada
May 27, 1986

COAL DIVISION

BALANCE SHEET AS AT MARCH 31

ASSETS	1986	1985
	$	$
Current		
Cash	10,315,194	7,130,333
Accounts receivable (Note 2)	23,873,285	21,812,315
Inventories, at the lower of cost and net realizable value		
Coal	22,818,843	38,089,217
Operating materials and supplies	12,945,717	11,875,851
Prepaid expenses	44,287	131,367
	69,997,326	79,039,083
Deferred development costs		612,279
Fixed (Note 3)	360,584,821	297,412,649
	430,582,147	377,064,011

LIABILITIES	1986	1985
	$	$
Current		
Accounts payable—Trade	20,419,648	13,559,037
Accrued wages and vacation pay	12,602,795	13,343,949
Accrued charges	12,731,111	16,420,600
Employees' deductions	3,568,282	4,853,461
Advances—Government of Canada	2,643,419	13,442,244
	51,965,255	61,619,291
EQUITY		
Equity of Canada	378,616,892	315,444,720
	430,582,147	377,064,011

Commitments (Note 4)

On Behalf of the Board:

TERESA MacNEIL
Director

MENDEL CHERNIN
Director

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

COAL DIVISION

STATEMENT OF EQUITY AS AT MARCH 31

	1986	1985
	$	$
Balance at beginning of year	315,444,720	285,675,886
Add: payments by Canada in respect of mining losses—Vote 30 (Note 1a)	16,935,853	10,032,963
payments by Canada in respect of capital expenditures—Vote 35 (Note 1a)	93,662,972	86,924,793
	426,043,545	382,633,642
Deduct: mining losses	16,935,853	10,032,963
depreciation of fixed assets (Note 1c)	30,490,800	30,926,059
write-off of fixed assets as a result of No. 26 Colliery closure		26,229,900
	47,426,653	67,188,922
Balance at end of year	378,616,892	315,444,720

COAL DIVISION

STATEMENT OF INCOME FOR THE YEAR ENDED MARCH 31

	1986	1985
	$	$
Revenue		
Coal sales	183,248,861	165,120,674
Less: external selling expense	4,295,726	8,365,150
	178,953,135	156,755,524
Outside railway revenue	2,775,345	3,104,860
Operating revenue	181,728,480	159,860,384
Operating expenses		
Wages and salaries	72,218,107	65,472,558
Holidays and vacations	10,363,224	9,011,534
Workers' Compensation	8,077,931	8,087,680
Surcharges	7,470,296	6,598,924
Materials and supplies	23,667,644	15,629,312
Repair materials	8,102,346	7,984,430
Electric power	5,192,866	4,755,970
Grants in lieu of taxes	2,559,939	2,562,694
Royalties	605,285	664,085
Hired heavy equipment	5,916,792	4,460,332
Other expenses	6,436,665	3,788,035
Purchased and capital coal	11,823,656	5,923,298
Depreciation	30,490,800	30,926,059
Decrease (Increase) in coal inventory	15,270,374	(4,421,650)
Total operating expenses	208,195,925	161,443,261
Excess operating expenses over operating revenue	26,467,445	1,582,877
Pensions	14,412,457	13,090,238
Pre-retirement leave	3,650,485	3,961,831
Workers' Compensation (Note 1d)	3,600,000	3,683,000
Interest and other income	(703,734)	(1,181,948)
	(47,426,653)	(21,135,998)
Deduct: depreciation not deductible in determining mining losses (Note 1c)	30,490,800	30,926,059
Net mining profit (losses) before employee profit sharing and extraordinary items	(16,935,853)	9,790,061
Employee profit sharing		979,000
Net mining profit (losses) before extraordinary items	(16,935,853)	8,811,061
Extraordinary items		18,844,024
Net mining losses for the year	(16,935,853)	(10,032,963)

COAL DIVISION

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31

	1986	1985
	$	$
Cash for operating activities		
Net mining losses	16,935,853	10,032,963
Increase (Decrease) in non-cash operating working capital*	(13,371,407)	1,054,630
	3,564,446	11,087,593
Cash from financing activities		
Payments by Canada		
In respect of mining losses	16,935,853	10,032,963
In respect of capital expenditures	93,662,972	86,924,793
Increase (Decrease) in repayable working capital advances	(10,798,825)	2,073,956
	99,800,000	99,031,712
Cash for investing activities		
Purchase of fixed assets	94,159,330	87,283,927
Proceeds from sale of fixed assets	(496,358)	(359,134)
Deferred development costs	(612,279)	612,279
	93,050,693	87,537,072
Increase in cash	3,184,861	407,047
Cash at beginning of year	7,130,333	6,723,286
Cash at end of year	10,315,194	7,130,333

Increase (Decrease) in non-cash operating working capital*		
Accounts receivable	2,060,970	5,376,996
Coal inventory	(15,270,374)	4,404,124
Material inventory	1,069,866	(2,214,958)
Prepaid expenses	(87,080)	(4,699)
Accounts payable	(6,860,611)	1,177,507
Accrued wages and vacation pay	741,154	(730,755)
Accrued charges	3,689,489	(6,440,600)
Employees' deductions	1,285,179	(512,985)
	(13,371,407)	1,054,630

COAL DIVISION

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 1986

1. Significant accounting policies

   (a) Financing

   The Corporation is financed by way of votes of the Parliament of Canada. These votes are for the purpose of funding mining losses and to finance capital projects.

   (b) Inventories

   Inventories are valued at the lower of cost and net realizable value.

   (c) Fixed assets

   Fixed assets are stated at cost. The Corporation has provided depreciation on its fixed assets based on their estimated useful lives. The Treasury Board of Canada has indicated that depreciation should not be provided in determining mining losses for Parliamentary appropriation. Accordingly, the depreciation provision has been eliminated in arriving at this amount.

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

COAL DIVISION

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

(d) Workers' compensation

Cape Breton Development Corporation is in a single pool with respect to the Nova Scotia Workers' plan. Prior to the fire in No. 26 Colliery, the expense for Workers' Compensation was allocated to the overhead of each operating unit on a formula basis. The Corporation has decided to continue this accounting treatment with the exception of the fixed portion of the expense that would have been absorbed by No. 26 Colliery. This item is shown separately on the Statement of Income as a non-operational expense.

2. Accounts receivable

	1986	1985
	$	$
Trade	23,928,237	20,094,723
Other—Claim receivable		1,625,000
Employees	95,048	142,592
	24,023,285	21,862,315
Less: allowance for doubtful accounts	150,000	50,000
	23,873,285	21,812,315

3. Fixed assets

	1986	1985
	$	$
Lingan Colliery	129,167,554	115,086,963
Prince Colliery	91,690,525	83,164,693
Donkin-Morien Colliery	72,437,092	64,429,327
Phalen Colliery	68,045,257	15,723,359
Coal Preparation Plant	60,464,896	54,004,882
Devco Railway	67,139,009	66,631,294
Carbogel	2,719,620	2,095,296
Other fixed assets	36,643,610	33,508,777
	528,307,563	434,644,591
Accumulated depreciation (Note 1c)	167,722,742	137,231,942
	360,584,821	297,412,649

4. Commitments

(a) Commitments on capital projects for ongoing mining operations include the following:

Approximately $29,770,000 for underground mining equipment

Approximately $9,410,000 for other facilities

(b) In May 1984, the Government of Canada committed to the development of the Phalen Colliery. The total development costs are anticipated to be approximately $181,600,000 with $89,000,000 anticipated for approval for the 1986-87 fiscal year.

(c) The Corporation obtained approval to appropriate $16,000,000 of the Corporation's 1985-86 capital budget to complete a second tunnel at the Donkin-Morien Project to bring the total approved project to approximately $80,000,000. To date the Corporation has expended approximately $8,000,000 of this appropriation. Upon completion of this tunnel, the Corporation will evaluate the viability of the overall project before proceeding further, taking into consideration the economic, commercial and strategic considerations with regards to the substantial costs involved in the underground development of the mine.

(d) The Corporation leases the General Mining Building which houses the offices of the Coal Division. The lease is for a 20-year period, commencing June 1984, with lease payments of approximately $1,300,000 per annum, at a current interest rate of 12.5%. The annual lease payments fluctuate with changes in the lessor's mortgage interest rates.

5. Long-term sales agreement

The Corporation has signed an agreement with the Nova Scotia Power Corporation which calls for the delivery of a substantial portion of the Corporation's coal production to the Power Corporation. The Agreement expires in the year 2011.

6. Pensions

An actuarial valuation of the Corporation's Non-Contributory Pension Plan as at December 31, 1982 indicated an unfunded actuarial liability of $59,800,000. No provision for these liabilities was included in the accounts as at March 31, 1986. The minimum annual amount required, for past and current service, including pension payments, will be approximately $9,400,000 in each year from 1986 to 1988 and $3,700,000 from 1989 to 1997.

Current pension payments are approximately $9,600,000 and the balance will be funded by the Corporation in each year.

7. Income taxes

The Corporation will be applying for refundable investment tax credits in respect of qualified expenditures incurred and qualifying assets purchased after April 19, 1983. The Corporation estimates the refund to be approximately $10,000,000. This amount has not been reflected in these financial statements and will be recorded as a reduction to the related expenditures or assets when received.

8. Comparative figures

Certain of the 1985 comparative figures have been restated to conform to the current year's presentation.

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED BALANCE SHEET AS AT MARCH 31

ASSETS	1986	1985
	$	$
Current		
Cash	1,476,368	1,116,403
Accounts and interest receivable	632,784	394,950
Receivable from Province of Nova Scotia		3,493
Receivable from Government of Canada	3,800,000	1,115,000
Inventories (Note 2d)	207,773	407,712
Prepaid expenses	19,806	25,902
	6,136,731	3,063,460
Loans and investments		
Loans	3,064,858	1,765,211
Investments	371,980	367,563
	3,436,838	2,132,774
Fixed (Notes 2b and 3)	13,716,405	14,815,134
Other		
Deferred charges	899	899
	23,290,873	20,012,267

LIABILITIES	1986	1985
	$	$
Current		
Accounts payable	652,321	356,812
EQUITY		
Equity of Canada	22,638,552	19,655,455
	23,290,873	20,012,267

Guarantees (Note 4)
Commitments (Note 5)

On behalf of the Board:

TERESA MACNEIL
Director

MENDEL CHERNIN
Director

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED STATEMENT OF EQUITY AS AT MARCH 31

	1986	1985
	$	$
Equity at beginning of year	19,655,455	20,447,098
Payments during year from Government of Canada—Vote 40 (Note 1)	9,500,000	10,615,000
	29,155,455	31,062,098
Deduct: net operating expenses	6,516,903	11,406,643
Equity at end of year	22,638,552	19,655,455

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED OPERATING STATEMENT FOR THE YEAR ENDED MARCH 31

	1986	1985
	$	$
Development and operating expenses		
Special recovery projects		2,470,000
Industrial operations and assistance	1,287,289	1,295,027
Tourist operations and grants	1,683,209	1,291,602
New business development assistance	1,572,405	1,810,614
Marine farming operations	247,031	1,345,937
Real estate operating costs	773,770	785,101
Community planning and projects	1,815,500	1,799,566
Primary production operations	436,319	384,360
Scholarships and apprentice programs	29,736	51,856
Loss (Gain) on disposal of fixed assets	(1,966)	103,630
	7,843,293	11,337,693
Administration expenses		
Salaries	927,402	1,568,343
Office and miscellaneous expenses	312,578	344,987
Professional fees		
Operational	66,933	134,291
Management contract		80,820
Travelling expenses	75,884	78,348
	1,382,797	2,206,789
Depreciation and amortization	1,535,613	1,643,361
Provision for unrecoverable loans and receivables	(199,805)	346,500
	1,335,808	1,989,861
Total operating expenses for the year	10,561,898	15,534,343
Revenue		
Tourist operations	1,134,258	1,205,861
Real estate rentals	1,304,552	1,242,284
Industrial operations	546,970	609,186
Interest	749,573	618,284
Marine farming operations	250,225	389,107
Primary production operations	59,417	62,978
	4,044,995	4,127,700
Net operating expenses	6,516,903	11,406,643

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31

	1986	1985
	$	$
Cash from financing activities		
Payments from Ottawa—Vote 40	9,500,000	10,615,000
Decrease in long-term debt		26,599
	9,500,000	10,588,401
Cash from operating activities		
Net operating expenses	(6,516,903)	(11,406,643)
Charges (credits) not affecting cash		
Depreciation and amortization	1,535,613	1,643,361
Loans forgiven	77,385	59,487
Loss (gain) on sale of fixed assets	(1,966)	103,630
Provision (recovery) of doubtful accounts	(317,835)	85,004
	(5,223,706)	(9,515,161)
(Increase) decrease in non-cash operating working capital*	(2,417,797)	92,017
Reduction in deferred charges		810
	(7,641,503)	(9,422,334)
Cash for investing activities		
Loan repayment	988,244	1,149,810
Loan drawdowns	(2,047,441)	(1,313,998)
Purchase of fixed assets	(815,638)	(1,407,189)
Proceeds from sale of fixed assets	380,720	524,831
Purchase of investments	(4,417)	(345,000)
	(1,498,532)	(1,391,546)
Increase (decrease) in cash	359,965	(225,479)
Cash at beginning of year	1,116,403	1,341,882
Cash at end of year	1,476,368	1,116,403
(Increase) decrease in non-cash operating working capital*		
Accounts receivable	(2,919,341)	87,318
Inventories	199,939	416,689
Prepaids	6,096	1,652
Accounts payable	295,509	(413,642)
	(2,417,797)	92,017

INDUSTRIAL DEVELOPMENT DIVISION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 1986

1. General policy

The objects of the Industrial Development Division are to promote and assist the financing and development of industry to provide employment on the Island of Cape Breton. In accomplishing these aims, the Corporation makes loans and investments, the amounts of which are often in excess of those which would be available through normal commercial sources. The Corporation also makes grants to assist enterprises which are considered likely to make a substantial improvement to the development of Cape Breton Island.

The Industrial Development Division is financed by way of vote of the Parliament of Canada. Parliament voted $9,500,000 for this purpose during the fiscal year ended March 31, 1986.

2. Significant accounting policies

(a) (i) Basis of consolidation

The financial statements of the Industrial Development Division include the results of the Division and all its subsidiaries as explained below:

	Corporation Interest	Company Year end
Darr (Cape Breton) Limited (Real Estate)	100%	Dec. 31
Cape Breton Marine Farming Limited (Inactive)	100%	March 31
Whale Cove Summer Village Limited (Tourist Accommodations)	62.5%	March 31
Dundee Estates Limited (Tourist Accommodations)	100%	March 31

(ii) As the financial statements of Whale Cove Summer Village Limited report a deficit equity position as at March 31, 1986, and the minority interest in losses to date have been absorbed against the total of the minority invested capital, the losses of this company are included in the consolidated net operating expenses. As a consequence, no minority interest for this subsidiary is shown in the consolidated balance sheet.

(b) Fixed assets

Fixed assets are recorded at cost. The cost and related depreciation of items retired or disposed of are removed from the books and any gains or losses are included in the consolidated operating statement. Depreciation is provided on the straight-line method using rates based on the estimated useful lives of the assets generally as follows:

Buildings	Up to 20 years
Equipment	4 to 10 years
Vehicles	3 to 4 years

(c) Accounting policy—Certain subsidiaries

The statements of Dundee Estates Limited include notes indicating that their statements have been prepared on the assumption that the company can continue to operate as a going concern, which assumption depends on the continued financial support of Cape Breton Development Corporation.

(d) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost determined on a first in, first out basis.

3. Fixed assets

	1986	1985
	$	$
Rental facilities	6,236,487	6,175,752
Tourist facilities	8,503,872	8,548,716
Primary industry facilities	1,730,627	1,751,112
Secondary industry facilities	7,215,937	6,869,996
	23,686,923	23,345,576
Less: accumulated depreciation	9,970,518	8,530,442
	13,716,405	14,815,134

The four categories of fixed assets shown above each include land, buildings and equipment.

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

INDUSTRIAL DEVELOPMENT DIVISION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

4. Guarantees

During the 1976 year, the Corporation guaranteed the repayment by Sydney Steel Corporation of that corporation's $70,000,000—11¼% Series D Debentures and the repayment of interest thereon. These funds were borrowed by Sydney Steel Corporation for the purpose of financing its plant rehabilitation program. The balance of the outstanding debentures has since been reduced to $41,860,000.

The Corporation in 1971 guaranteed the repayment of bank advances to Stora Kopparbergs Bergslags Aktiebolag. This guarantee originally amounted to $30,000,000. The balance of advances has since been reduced to $9,298,000 of which $14,000 is in U.S. dollars.

The Corporation made the guarantees for and on behalf of Her Majesty the Queen in right of Canada; therefore, any amounts required to be paid shall be paid out of the Consolidated Revenue Fund of Canada and not out of funds of Cape Breton Development Corporation.

5. Commitments

(a) As at March 31, 1986, the Industrial Development Division of the Corporation was committed to expenditures and loans over and above the amounts included in the financial statements at that time, totalling $8,900,000.

(b) In addition, Darr (Cape Breton) Limited, (a wholly owned subsidiary) entered into an agreement with Commonwealth Holiday Inns of Canada Limited wherein Darr (Cape Breton) Limited agreed to finance a $5,500,000 capital program including expansions, improvements and relicensing requirements. Upon completion of the project, a new management agreement will become effective. It is the intention of Darr (Cape Breton) Limited to fund this project by obtaining external financing.

6. Enterprise Cape Breton

During the latter part of the year the Minister of Regional Industrial Expansion announced the formation of Enterprise Cape Breton, a new agency to promote the development of industry on the Island of Cape Breton. As a result, the scope and form of operations of the Industrial Development Division will be significantly affected.

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

AUDITORS' REPORT

TO THE HONOURABLE
THE MINISTER OF REGIONAL AND
INDUSTRIAL EXPANSION

We have examined the balance sheet and the statement of equity of the Coal Division and of the Industrial Development Division of the Cape Breton Development Corporation as at March 31, 1985, and the related income and operating statements and the statements of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The financial statements of the Industrial Development Division and of its subsidiaries have been presented on a consolidated basis. As required by the provisions of the Cape Breton Development Corporation Act, the financial statements of the Coal Division and of the Industrial Development Division are being presented separately.

In our opinion, these financial statements present fairly the financial position of the Coal Division and of the Industrial Development Division of the Cape Breton Development Corporation as at March 31, 1985, and results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and its regulations, and the Cape Breton Development Corporation Act and the by-laws of the Corporation.

Touche Ross & Co.
Chartered Accountants

Sydney, Canada
May 21, 1985

COAL DIVISION

BALANCE SHEET AS AT MARCH 31

ASSETS	1985	1984	LIABILITIES	1985	1984
	$	$		$	$
Current			Current		
Cash	7,130,333	6,723,286	Accounts payable—Trade	13,559,037	14,736,544
Accounts receivable (Note 2)	21,812,315	16,435,319	Accrued wages and vacation pay	13,343,949	12,613,194
Inventories, at the lower of cost and net realizable value			Accrued charges	16,420,600	9,980,000
Coal	38,089,217	33,685,093	Employees' deductions	4,853,461	4,340,476
Operating materials and supplies	11,875,851	14,090,809	Advances—Government of Canada	13,442,244	11,368,288
Prepaid expenses	131,367	136,066		61,619,291	53,038,502
	79,039,083	71,070,573	EQUITY		
Deferred development costs (Note 1(d))	612,279		Equity of Canada		
Fixed (Notes 3 and 7)	297,412,649	267,643,815	Per statement attached	315,444,720	285,675,886
	377,064,011	338,714,388		377,064,011	338,714,388

Commitments (Note 4)

On behalf of the Board:

TERESA MacNEIL
Director

D. C. RANCE
Director

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

COAL DIVISION

STATEMENT OF EQUITY
AS AT MARCH 31

	1985	1984
	$	$
Balance at beginning of year	285,675,886	268,444,138
Add: payments by Canada in respect of mining losses—Vote 35 (Note 1(a))	10,032,963	83,325,270
payments by Canada in respect of capital expenditures—Vote 40, 40b (Note 1(a))	86,924,793	16,098,442
	382,633,642	367,867,850
Deduct: mining losses	10,032,963	49,622,754
depreciation of fixed assets (Note 1(c))	30,926,059	32,569,210
write-off of fixed assets as a result of No. 26 Colliery closure (Note 7)	26,229,900	
	67,188,922	82,191,964
Balance at end of year	315,444,720	285,675,886

COAL DIVISION

STATEMENT OF INCOME
FOR THE YEAR ENDED MARCH 31

	1985	1984
	$	$
Revenue		
Coal sales	165,120,674	144,317,578
Less: external selling expense	8,365,150	7,701,107
	156,755,524	136,616,471
Outside railway revenue	3,104,860	2,578,511
Operating revenue	159,860,384	139,194,982
Operating expenses		
Wages and salaries	65,472,558	91,476,184
Holidays and vacations	8,211,534	12,588,000
Workers' Compensation	8,087,680	14,356,000
Surcharges	7,398,924	9,344,484
Materials and supplies	16,366,821	22,207,328
Repair materials	7,984,430	12,025,613
Electric power	4,755,970	7,336,384
Grants in lieu of taxes	2,562,694	3,012,188
Royalties	664,085	770,798
Hired heavy equipment	3,722,823	3,561,618
Other expenses	3,788,035	3,325,426
Purchased coal	5,923,298	5,689,791
Depreciation	30,926,059	32,569,210
(Increase) in coal inventory	(4,421,650)	(12,167,132)
Total operating expenses	161,443,261	206,095,892
Excess operating expenses over operating revenue	1,582,877	66,900,910
Pensions	13,090,238	11,956,677
Pre-retirement leave	3,961,831	4,338,827
Workers' Compensation (Note 1(e))	3,683,000	
Interest and other income	(1,181,948)	(1,004,450)
	(21,135,998)	(82,191,964)
Deduct: depreciation not deductible in determining mining losses (Note 1(c))	30,926,059	32,569,210
Net mining profit (losses) before employee profit sharing and extraordinary items	9,790,061	(49,622,754)
Employee profit sharing	979,000	
Net mining profit (losses) before extraordinary items	8,811,061	(49,622,754)
Extraordinary items (Note 7)	18,844,024	
Net mining losses for the year	(10,032,963)	(49,622,754)

COAL DIVISION

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31

	1985	1984
	$	$
Funds provided from		
Payments by Canada		
In respect of mining losses Vote 35 (Note 1(a))	10,032,963	83,325,270
In respect of capital expenditures Vote 40, 40b Note 1(a))	86,924,793	16,098,442
Proceeds from disposal of fixed assets	359,134	209,336
	97,316,890	99,633,048
Funds used for		
Net mining losses	10,032,963	49,622,754
Deferred development costs	612,279	
Expenditures on fixed assets	87,283,927	61,939,375
	97,929,169	111,562,129
Decrease in working capital	612,279	11,929,081
Working capital at beginning of year	18,032,071	29,961,152
Working capital at end of year	17,419,792	18,032,071

COAL DIVISION

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1985

1. Significant Accounting Policies

(a) Financing

The Corporation is financed by way of votes of the Parliament of Canada. These votes are for the purpose of funding mining losses and to finance capital projects.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value.

(c) Fixed Assets

Fixed assets are valued at cost. The Corporation has provided depreciation on its fixed assets based on their estimated useful lives. The Treasury Board of Canada has indicated that depreciation should not be provided in determining mining losses for Parliamentary appropriation. Accordingly, the depreciation provision has been eliminated in arriving at this amount.

(d) Deferred Development Costs

The Corporation has embarked upon certain development projects which will be recognized as operating expenses in the periods in which coal production, resulting from the projects, commences.

(e) Workers' Compensation

Cape Breton Development Corporation is in a single pool with respect to the Nova Scotia Workers' plan. Prior to the fire in No. 26 Colliery, the expense for Workers' Compensation was allocated to the overhead of each operating unit on a formula basis. The Corporation has decided to continue this accounting treatment with the exception of the expense that would have been absorbed by No. 26 Colliery. This item is shown separately on the Statement of Income as a non-operational expense.

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

COAL DIVISION

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1985—*Concluded*

2. Accounts Receivable

	1985	1984
	$	$
Trade	20,094,723	16,397,313
Other—Claim receivable	1,625,000	
Employees	142,592	101,747
	21,862,315	16,499,060
Less: allowance for doubtful accounts	50,000	63,741
	21,812,315	16,435,319

3. Fixed Assets

	1985	1984
	$	$
Lingan Harbour Mine	115,086,963	100,860,448
No. 26 Mine		63,147,916
Prince Mine	83,164,693	71,513,155
Donkin—Morien Mine	64,429,327	49,497,170
Lingan Phalen Mine	15,723,359	
Coal Preparation Plant	54,004,882	45,659,934
Devco Railway	66,631,294	54,222,462
Other fixed assets	35,604,073	29,149,821
	434,644,591	414,050,906
Accumulated depreciation (Note 1)	137,231,942	146,407,091
	297,412,649	267,643,815

4. Commitments

(a) Commitments on capital projects for ongoing mining operations include the following:

Approximately $850,000 for underground mining equipment

Approximately $4,000,000 for other facilities

(b) In May, 1984, the Government of Canada committed to the development of the Lingan-Phalen Mine. The total development costs are anticipated at approximately $183,600,000 with $71,000,000 approved for the 1985-86 fiscal year.

(c) During the year, the Corporation completed the redefined Phase II (completion of the first tunnel) of the Donkin-Morien Project for less than the approved capital funding limits of the Government of Canada.

The Corporation anticipates approval to appropriate $16,000,000 of the Corporation's 1985-86 capital budget to complete a second tunnel. Upon completion of this tunnel, the Corporation will evaluate the viability of the overall project before proceeding further, taking into consideration the economic, commercial and strategic considerations with regards to the substantial costs involved in the underground development of the mine.

(d) The Corporation leases the General Mining Building, which houses the offices of the Coal Division. The lease is for a 20-year period, commencing June, 1984, with lease payments of approximately $1,300,000 per annum, at a current interest rate of 12.5%. The annual lease payments fluctuate with changes in the lessor's mortgage interest rates.

5. Long-Term Sales Agreement

The Corporation has signed an agreement with the Nova Scotia Power Corporation which calls for the delivery of a substantial portion of the Corporation's coal production to the Power Corporation. The agreement expires in the year 2011.

6. Pensions

An actuarial valuation of the Corporation's Non-Contributory Pension Plan as at December 31, 1982 indicated an unfunded actuarial liability of $59,800,000. No provision for these liabilities was included in the accounts as at March 31, 1985. The minimum annual amount required, for past and current service, including pension payments, will be approximately $9,400,000 in each year from 1985 to 1988 and $3,700,000 from 1989 to 1997.

Current pension payments are approximately $9,100,000 and the balance will be funded by the Corporation in each year.

7. Extraordinary Items

The extraordinary items consist of losses as the result of a fire at No. 26 Colliery, Glace Bay, N.S., and a gain resulting from the settlement of a claim against a contractor in connection with the construction of the Victoria Junction Coal Preparation facilities. Included in the losses are the costs incurred relating to the proposed reconstruction of 1B Colliery which commenced due to the closure of No. 26 Colliery. Subsequent to March 31, 1985, it has been determined that the 1B Colliery project is not economically feasible and has been discontinued.

These extraordinary items are as follows:

	$
Loss as a result of closure of No. 26 Colliery	
Write-off of fixed assets, including surface assets and capital expenditures at 1B Colliery	26,229,900
Warehouse inventory made obsolete	2,191,000
Expenditures to control fire, seal mine and other expenses	13,765,024
Employee benefits payable under union contract	4,513,000
Total loss	46,698,924
Deduct: write-off of fixed assets not deductible in determining losses	26,229,900
	20,469,024
Gain on the settlement of claim against contractor	
The claim against the contractor in connection with the construction of the Victoria Junction Coal Preparation facility has been finalized	1,625,000
	18,844,024

8. Income Taxes

The Corporation is eligible for a refund of 20% of the investment tax credits in respect of qualified expenditures incurred and qualifying assets purchased after April 19, 1983. The Corporation estimates the refund to be approximately $3,500,000. This amount has not been reflected in these financial statements and will be recorded as a reduction to the related expenditures or assets when received.

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED BALANCE SHEET
AS AT MARCH 31

ASSETS	1985	1984	LIABILITIES	1985	1984
	$	$		$	$
Current			Current		
Cash	1,116,403	1,341,882	Accounts payable	356,812	770,454
Accounts and interest receivable	394,950	615,463			
Receivable from Province of Nova Scotia	3,493	15,298	Long-term Debt	–	26,599
Receivable from Government of Canada	1,115,000	970,000			
Inventories (Note 2(d))	407,712	824,401			
Prepaid expenses	25,902	27,554	EQUITY		
	3,063,460	3,794,598	Equity (Note 1)	19,655,455	20,447,098
Loans and investments					
Loans	1,765,211	1,771,555			
Investments	367,563	22,563			
Long-term Debt	2,132,774	1,794,118			
Fixed (Notes 2(b) and 3)	14,815,134	15,653,726			
Other					
Deferred charges	899	1,709			
	20,012,267	21,244,151		20,012,267	21,244,151

Guarantees (Note 4)
Commitments (Note 5)

On behalf of the Board:

TERESA MacNEIL
Director

D. C. RANCE
Director

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED STATEMENT OF EQUITY
AS AT MARCH 31

	1985	1984
	$	$
Equity at beginning of year	20,447,098	21,550,455
Payments during year from Government of Canada—Vote 45 (Note 1)	10,615,000	10,770,000
	31,062,098	32,320,455
Deduct: net operating expenses	11,406,643	11,873,357
Equity at end of year	19,655,455	20,447,098

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED OPERATING STATEMENT FOR THE YEAR ENDED MARCH 31

	1985	1984
	$	$
Development and operating expenses		
Special recovery projects	2,470,000	3,430,000
Industrial operations and assistance	1,295,027	1,774,604
Tourist operations and grants	1,291,602	1,535,886
New business development assistance	1,810,614	1,284,363
Marine farming operations	1,345,937	1,133,647
Real estate operating costs	785,101	763,018
Community planning and projects	1,799,566	747,729
Primary production operations	384,360	244,170
Scholarships and apprentice programs	51,856	96,960
Loss on disposal of fixed assets	103,630	176,148*
	11,337,693	11,186,525
Administration expenses		
Salaries	1,568,343	1,661,566
Office and miscellaneous expenses	344,987	482,715
Professional fees —Operational	134,291	92,297
—Management contract	80,820	
Travelling expenses	78,348	139,949
	2,206,789	2,376,527
Depreciation and amortization	1,643,361	1,467,057
Provision for unrecoverable loans and receivables	346,500	1,085,607
	1,989,861	2,552,664
Total operating expenses for the year	15,534,343	16,115,716
Revenue		
Tourist operations	1,205,861	1,239,212
Real estate rentals	1,242,284	1,124,689
Industrial operations	609,186	803,252
Interest	618,284	646,324*
Marine farming operations	389,107	386,440
Primary industry operations	62,978	42,442
	4,127,700	4,242,359
Net operating expenses	11,406,643	11,873,357

*Restated

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31

	1985	1984
	$	$
Funds provided from		
Payment from Government of Canada—Vote 45	10,615,000	10,770,000
Repayment and reduction of loans	1,149,810	608,311
Proceeds on sale of fixed assets	524,831	168,907
	12,289,641	11,547,218
Funds used for		
Net operating expenses	11,406,643	11,873,357
Less: items not requiring an outlay of funds		
depreciation and amortization	1,643,361	1,467,057
provision for doubtful loans and investments	85,004	735,985
forgiveable portion of loans transferred to grants	59,487	82,886
loss on sale of fixed assets	103,630	176,148
reduction in deferred charges	810	1,589
	9,514,351	9,409,692
Loans	1,313,998	743,449
Purchase of fixed assets		
Rental facilities	175,613	89,661
Tourist facilities	279,924	1,105,953
Primary industry facilities	87,234	324,681
Secondary industry facilities	864,418	680,763
Purchase of investments	345,000	18,000
Decrease in long-term debt	26,599	231
	12,607,137	12,372,430
Decrease in working capital	(317,496)	(825,212)
Working capital at beginning of year	3,024,144	3,849,356
Working capital at end of year	2,706,648	3,024,144

INDUSTRIAL DEVELOPMENT DIVISION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 1985

1. General Policy

The objects of the Industrial Development Division are to promote and assist the financing and development of industry to provide employment on the Island of Cape Breton. In accomplishing these aims, the Corporation makes loans and investments, the amounts of which are often in excess of those which would be available through normal commercial sources. The Corporation also makes grants to assist enterprises which are considered likely to make a substantial improvement to the development of Cape Breton Island.

The Industrial Development Division is financed by way of Vote of the Parliament of Canada. Parliament voted $10,615,000 for this purpose during the fiscal year ended March 31, 1985.

CAPE BRETON DEVELOPMENT CORPORATION—*Concluded*

INDUSTRIAL DEVELOPMENT DIVISION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1985—*Concluded*

2. Significant Accounting Policies

(a) (i) Basis of Consolidation

The financial statements of the Industrial Development Division include the results of the Division and all its subsidiaries as explained below.

	Corporation Interest	Company Year End
Darr (Cape Breton) Limited (Real Estate)	100%	December 31
Cape Breton Marine Farming Limited (Fish and Oyster Farming)	100%	March 31
Whale Cove Summer Village Limited (Tourist Accommodations)	62.5%	March 31
Dundee Estates Limited (Tourist Accommodations)	100%	March 31

(ii) During the year Cape Breton Marine Farming Limited ceased operations. Both the operating loss of $820,759 and the loss on the transfer value of its fixed assets to the Corporation of $242,870, are included in the consolidated financial statements.

(iii) During the year the Corporation disposed of its holdings in Cape Breton Woolen Mills Limited, and has written off its 53.3% equity interest, advances, and loans in the aggregate amount of $855,752. As the Corporation had, in prior years, recognized equity losses of $539,278, on consolidation, the current year loss on disposition reflected in these financial statements is $380,991, after recoveries of advances of $64,517.

(iv) As the financial statements of Whale Cove Summer Village Limited report a deficit equity position as at March 31, 1985, and the minority interest in losses to date have been absorbed against the total of the minority invested capital, the losses of this company are included in the consolidated net loss. As a consequence, no minority interest is shown in the balance sheet for this subsidiary.

(b) Fixed Assets

Fixed assets are recorded at cost. The cost and related depreciation of items retired or disposed of are removed from the books and any gain or losses are included in the consolidated operating statement. Depreciation is provided on the straight-line method using rates based on the estimated useful lives of the assets generally as follows:

Buildings	Up to 20 years
Equipment	4 to 10 years
Vehicles	3 to 4 years

(c) Accounting Policy—Certain Subsidiaries

The statements of Dundee Estates Limited include notes indicating that their statements have been prepared on the assumption that the company can continue to operate as a going concern, which assumption depends on the continued financial support of Cape Breton Development Corporation.

(d) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost determined on a first in, first out basis.

3. Fixed Assets

	1985	1984
	$	$
Rental facilities	6,175,752	6,021,589
Tourist facilities	8,548,716	8,301,117
Primary industry facilities	1,751,112	3,291,509
Secondary industry facilities	6,869,996	6,540,194
	23,345,576	24,154,409
Less: accumulated depreciation	8,530,442	8,500,683
	14,815,134	15,653,726

The four categories of fixed assets shown above each include land, buildings and equipment.

4. Guarantees

During the 1976 year, the Corporation guaranteed the repayment by Sydney Steel Corporation of that company's $70,000,000-11¼% Series D Debentures and the repayment of interest thereon. These funds were borrowed by Sydney Steel Corporation for the purpose of financing its plant rehabilitation program. The balance of the outstanding debentures has since been reduced to $45,710,000.

The Corporation in 1971 guaranteed the repayment of bank advances to Stora Kopparbergs Bergslags Aktiebolag. This guarantee originally amounted to $30,000,000. The balance of advances has since been reduced to $10,500,000 of which $500,000 is in U.S. dollars.

The Corporation made the guarantees for and on behalf of Her Majesty the Queen in right of Canada; therefore, any amounts required to be paid shall be paid out of the Consolidated Revenue Fund of Canada and not out of funds of Cape Breton Development Corporation.

5. Commitments

As at March 31, 1985, the Industrial Development Division of the Corporation was committed to expenditures and loans over and above the amounts included in the financial statements at that time, totalling $2,523,950; being made up of Regular Project Commitments of $1,073,950 and Special Commitments of $1,450,000 to the Jeux Canada Winter Games '87 and the Sydney Centre 200 project.

6. Subsequent Events

Subsequent to March 31, 1985, the Corporation has entered into negotiations to sell the Inverness Beach tourism facilities for approximately $200,000. The net book value of these assets is $553,539. The resulting loss on disposal is not reflected in the financial statements as at March 31, 1985.

SUMMARY PAGE

DEFENCE CONSTRUCTION (1951) LIMITED

MANDATE

To contract for and supervise major military construction and maintenance projects required by the Department of National Defence; to provide technical and administrative assistance concerning construction matters to government departments and agencies on a cost-recovery basis.

BACKGROUND

The corporation has been in operation since 1951.

CORPORATION DATA

HEAD OFFICE	S.B.I. Building Billings Bridge Plaza 2323 Riverside Drive Ottawa, Ontario K1A 0K3
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Perrin Beatty, P.C., M.P.
DEPARTMENT	National Defence
DATE AND MEANS OF INCORPORATION	Pursuant to the *Defence Production Act* (R.S.C. 1970 C. D-2); continued under the *Canada Corporations Act*, November 21, 1978
CHIEF EXECUTIVE OFFICER	J.R. Lorne Atchison
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	2.6	1.2	1.0	1.2
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	1.4	nil	nil	0.4
Equity of Canada	(3.1)	(3.1)	(3.2)	(3.0)
Cash from Canada in the period				
— budgetary	14.3	14.5	12.9	11.4
— non-budgetary	nil	nil	nil	nil

DEFENCE CONSTRUCTION (1951) LIMITED

AUDITOR'S REPORT

TO THE ASSOCIATE MINISTER OF NATIONAL DEFENCE

I have examined the balance sheet of Defence Construction (1951) Limited as at March 31, 1986 and the statements of operations and deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Defence Production Act and the by-laws of the Corporation.

D. L. Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 30, 1986

BALANCE SHEET AS AT MARCH 31, 1986

ASSETS	1986	1985
	$	$
Current		
Cash	2,211,938	315,427
Accounts receivable from government departments and agencies	21,718	51,655
Due from Canada		465,568
Other	59,985	23,801
	2,293,641	856,451
Fixed, at cost		
Furniture and equipment	920,399	815,647
Less: accumulated depreciation	618,747	499,604
	301,652	316,043
	2,595,293	1,172,494

LIABILITIES	1986	1985
	$	$
Current		
Accounts payable and accrued liabilities	1,175,249	1,174,826
Due to Canada	1,394,606	
Contractors' security deposits (Note 3)	212,567	233,250
	2,782,422	1,408,076
Provision for employee benefits (Note 4)	2,875,300	2,911,710
	5,657,722	4,319,786
CAPITAL STOCK AND DEFICIT		
Capital stock		
Authorized—1,000 shares of no par value		
Issued—31 shares fully paid	31	31
Deficit (Note 5)	(3,062,460)	(3,147,323)
	(3,062,429)	(3,147,292)
	2,595,293	1,172,494

Approved by the Board:

J. R. L. ATCHISON
Director

L. E. DAVIES
Director

DEFENCE CONSTRUCTION (1951) LIMITED—*Continued*

STATEMENT OF OPERATIONS AND DEFICIT FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Expenses		
Salaries	10,130,929	10,156,676
Employee benefits	1,209,093	1,150,067
Travel and removal	794,811	757,396
Office accommodation	494,229	480,726
Telephone	277,750	308,064
Postage, express and freight	179,229	159,264
Advertising	162,466	166,972
Office supplies and maintenance	159,417	185,930
Depreciation	126,680	111,492
Rental of machinery	118,843	102,614
Professional services	118,283	104,106
Training and professional development	49,896	46,588
Loss on disposal of fixed assets		26,202
Other	35,356	20,037
	13,856,982	13,776,134
Recoveries of expenses (Note 6)	168,720	255,459
Cost of operations	13,688,262	13,520,675
Parliamentary appropriations	13,773,125	13,615,568
Excess of parliamentary appropriations over cost of operations	84,863	94,893
Deficit at beginning of the year	3,147,323	3,242,216
Deficit at end of the year	3,062,460	3,147,323

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Financing activities		
Parliamentary appropriations	13,773,125	13,615,568
Operating activities		
Reported cost of operations	13,688,262	13,520,675
Provision for employee benefits	(582,030)	(382,445)
Depreciation	(126,680)	(111,492)
Loss on sale of fixed assets		(26,202)
Net increase (decrease) in non-cash working capital balances related to operations*	(1,833,667)	466,256
Cash applied to operations	11,145,885	13,466,792
Employee benefits paid	618,440	314,897
Cash applied to operating activities	11,764,325	13,781,689
Investing activities		
Acquisition of equipment	112,289	288,307
Disposal of equipment		(14,979)
Cash invested	112,289	273,328
Increase (decrease) in cash during the year	1,896,511	(439,449)
Cash at beginning of the year	315,427	754,876
Cash at end of the year	2,211,938	315,427

* Consisting of changes in receivables, other assets, accounts payable and accrued liabilities, and contractors' security deposits.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1986

1. Authority, objectives and operations

The Corporation was incorporated under the Canada Corporations Act in 1951 and is continued under the Canada Business Corporations Act, pursuant to the authority of the Defence Production Act, to contract for major military construction and maintenance projects required by the Department of National Defence. The Corporation is a Crown corporation named in Part I of Schedule C to the Financial Administration Act. The Corporation is not subject to income taxes.

The Corporation's principal functions in the field of construction management are to obtain tenders, make recommendations regarding proposed awards and to award and administer contracts. As an integral part of its responsibility for contract administration, the Corporation inspects the work to ensure completion in accordance with the contract and certifies contractors' progress claims for payment from funds of the Department of National Defence. It also engages architectural and engineering firms to prepare plans and specifications in accordance with the requirements of the Department of National Defence. It may provide technical and administrative assistance on construction matters to other government departments when required.

2. Significant accounting policies

Expenses

The accounts of the Corporation reflect only the administrative expenses incurred in procuring the construction and maintenance of defence projects on behalf of the Department of National Defence and in procuring the construction of such other projects as are approved by Treasury Board.

Depreciation

Depreciation is provided by the straight-line method over five years.

Employee benefits

Employee benefits are expensed when earned by employees.

Pensions

During the year, the Corporation made payments of $549,937 ($553,815 in 1985) in respect of current contributions to the Public Service Superannuation Account of the Government of Canada. The Account is actuarially valued every five years. The Corporation's contributions and recorded liabilities are limited to the matching of the current and certain arrears contributions of employees. The Corporation is not required to make contributions with respect to actuarial deficiencies of the Account.

Parliamentary appropriations

The cost of operations is funded by parliamentary appropriations through the Department of National Defence Vote 15 to the extent of net annual cash requirements.

3. Contractors' security deposits

	1986	1985
	$	$
Bid deposits	114,220	191,700
Deposits on plans and specifications	98,347	41,550
	212,567	233,250

DEFENCE CONSTRUCTION (1951) LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

4. Provision for employee benefits

	1986	1985
	$	$
Termination benefits	2,594,083	2,638,627
Life insurance	79,327	91,553
Furlough benefits	201,890	181,530
	2,875,300	2,911,710

5. Deficit

The deficit of the Corporation is comprised primarily of the liabilities for employee benefits which will require funding from parliamentary appropriations in future years as they are paid.

6. Recoveries of expenses

The Corporation provides certain technical and administrative assistance to the Department of National Defence and other government departments and agencies on a cost-recovery basis. As at March 31, 1986, accounts receivable for recoveries were $21,288 (1985—$51,228).

During the year, in the normal course of operations, the Department of National Defence provided office space free of charge for 172 employees of the Corporation.

7. Lease commitments

The Corporation leases certain equipment and accommodation in the performance of its operations. The future aggregate minimum lease payments are:

Year ending March 31	$
1987	56,774
1988	48,988
1989	46,178
1990	26,937
	178,877

8. Contingencies

Claims aggregating approximately $2,419,000 in respect of contractual obligations have been received by the Corporation, but are not reflected in the accounts. In the opinion of management and legal counsel, the position of the Corporation is defensible, however the final outcome of such claims is not determinable. Any settlements resulting from the resolution of these claims will be funded through parliamentary appropriations of the Department of National Defence, in the year in which the settlements occur.

9. Supplementary information

The Corporation's contracting activity on behalf of government departments and agencies is summarized below:

	1986	1985
	(in thousands of dollars)	
Contracts in progress at beginning of the year	404,755	327,022
Contracts awarded	253,221	243,287
	657,976	570,309
Contracts completed	166,096	165,554
Contracts in progress at end of the year	491,880	404,755
Payments on contracts in progress at end of the year	366,931	294,219
Work outstanding on contracts in progress at end of the year	124,949	110,536

SUMMARY PAGE

EXPORT DEVELOPMENT CORPORATION

MANDATE

To facilitate and develop export trade by the provision of insurance, guarantees, loans and other financial facilities.

BACKGROUND

Funding from Canada for Corporate Account transactions is provided by loans and equity infusions, but the growth of the Corporation's business in recent years has been financed mainly by its borrowing in the private markets. Apart from its corporate activities, EDC administers for Canada certain export financing transactions considered to be in the national interest for Canada, including those made pursuant to section 31 of the *Export Development Act*.

CORPORATION DATA

HEAD OFFICE	151 O'Connor Street P.O. Box 655 Ottawa, Ontario K1P 5T9
STATUS	—Schedule C, Part I —an agent of Her Majesty
APPROPRIATE MINISTER	The Right Honourable Joe Clark, P.C., M.P.
DEPARTMENT	External Affairs
DATE AND MEANS OF INCORPORATION	Established in 1969 by the *Export Development Act* (R.S.C. 1970, C. E-18).
CHIEF EXECUTIVE OFFICER	Robert Richardson
CHAIRMAN	V.E. Daughney
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	1984 (restated)	1983	1982
CORPORATE ACCOUNT				
At the end of the year				
Total Assets	7,296	6,611	6,063	5,282
Obligations to the private sector	5,868	5,137	4,511	3,844
Obligations to Canada	154	258	376	448
Equity of Canada	896	855	769	651
Cash from Canada in the year				
—budgetary	nil	nil	nil	nil
—non-budgetary	37	79	116	115
CANADA ACCOUNT				
At the end of the year				
Funded by Canada Cumulative	1,142	1,061	900	753

EXPORT DEVELOPMENT CORPORATION

AUDITOR'S REPORT

THE RIGHT HONOURABLE JOE CLARK, P.C., M.P.
SECRETARY OF STATE FOR EXTERNAL AFFAIRS

I have examined the balance sheet of Export Development Corporation as at December 31, 1985 and the statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Export Development Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
February 26, 1986

BALANCE SHEET AS AT DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984
Loans receivable (Note 2)		
Long-term	5,111,485	4,829,020
Short-term	964,741	821,458
	6,076,226	5,650,478
Accrued interest and fees	308,691	272,054
	6,384,917	5,922,532
Less: allowance for losses on loans	105,257	83,261
	6,279,660	5,839,271
Cash and marketable securities		
Cash and short-term deposits	629,021	700,709
Marketable securities (market value: 1985—$291,465, 1984—$4,481)	291,275	5,048
Accrued interest	10,453	10,330
	930,749	716,087
Other assets		
Unamortized debt discount and issue expenses	56,477	47,235
Other	29,252	32,048
	85,729	79,283
	7,296,138	6,634,641

LIABILITIES	1985	1984
Loans payable (Note 3)		
Long-term	3,906,655	3,393,963
Short-term	2,115,917	2,000,202
Accrued interest	200,764	179,091
	6,223,336	5,573,256
Other liabilities and deferred revenues		
Accounts payable	19,464	51,259
Deferred revenues and other credits	127,030	133,293
Allowance for claims on insurance and guarantees	30,251	22,287
	176,745	206,839
SHAREHOLDER'S EQUITY		
Share capital (Note 4)	697,000	660,000
Retained earnings	199,057	194,546
	896,057	854,546
	7,296,138	6,634,641

Commitments and contingent liabilities (Note 5)

Approved by the Board of Directors:

SYLVAIN CLOUTIER
Chairman of the Board and President

B. A. CULHAM
Senior Vice-President, Finance and Treasurer

EXPORT DEVELOPMENT CORPORATION—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Loans and guarantees		
Interest earned	573,220	553,469
Fees earned	23,568	19,611
Investment interest earned	67,357	81,481
	664,145	654,561
Interest expense		
Long-term	481,086	436,928
Short-term	138,273	175,434
Provision for losses on loans	21,618	24,120
	640,977	636,482
	23,168	18,079
Insurance and guarantees		
Premiums and fees earned	16,490	17,433
Investment interest earned	4,877	5,613
	21,367	23,046
Provision for claims	6,781	6,411
	14,586	16,635
Income from operations	37,754	34,714
Administrative expenses	33,243	28,231
Net income	4,511	6,483
Retained earnings		
Beginning of year	194,546	188,063
End of year	199,057	194,546

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Operations		
Net Income	4,511	6,483
Items not affecting cash		
Provision for claims and losses on loans	28,399	30,531
Amortization of fees and premiums	(33,510)	(26,008)
Increase in accruals of interest and fees	(12,437)	(82,152)
Rescheduling of interest	(29,239)	(18,620)
Fees and premiums received	42,891	47,321
Other changes	(19,460)	(12,634)
	(18,845)	(55,079)
Loans receivable disbursed	(819,980)	(934,480)
Loans receivable repaid	644,759	549,602
Cash used in operations	(194,066)	(439,957)
Treasury		
Issue of long-term debt	980,291	795,416
Repayment of long-term debt	(628,795)	(780,562)
Increase in short-term loans payable	20,109	223,624
Issue of share capital	37,000	79,000
Funding provided	408,605	317,478
Increase (decrease) in cash and marketable securities	214,539	(122,479)
Cash and marketable securities		
Beginning of year	705,757	828,236
End of year	920,296	705,757

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1985

1. Summary of significant accounting policies

These financial statements are prepared in accordance with accounting principles generally accepted in Canada, consistently applied, and conform in all material respects with international accounting standards. A summary of significant accounting policies follows:

Marketable securities

Marketable securities are valued at the lower of cost and market value as at the balance sheet date.

Loan interest earned

Interest is accrued on principal receivable until such time as the loan becomes non-current. Non-current is defined as any loan where there is significant doubt as to collectibility, where significant payments have not been received for a period of two years and rescheduling agreement has not been negotiated, or when a rescheduling agreement has been signed and a significant payment has not been received for one year.

Finance and service charges, which are paid by exporters, are taken into interest earned over the disbursement and repayment periods of a loan.

Loan fees earned

Administration fees are taken into income as earned over the disbursement and repayment periods of a loan, and standby fees are taken into income over the disbursement period.

Exposure fees, which are paid by exporters, are taken into income over the disbursement and repayment periods of a loan.

Investment interest earned

Investment interest earned is prorated between loans and guarantees and insurance and guarantees on the basis of average funds invested.

Interest expense

Interest expense includes the amortization of debt discount and issue expenses which is charged over the life of the debt on a straight line basis.

Allowance for losses on loans receivable

The allowance for losses on loans is based on a review of collectibility of all outstanding loans to sovereign and commercial borrowers. In respect of this review, the Corporation recognizes that the future economic and political conditions in some of the countries where the Corporation has made loans are subject to varying degrees of uncertainties and pressures. Accordingly, delays in the repayment of principal and interest may occur from time to time.

In the case of loans made to or guaranteed by sovereign borrowers, that is the governments of countries or their agencies, payment delays are not necessarily indicative of a future loss requiring an allowance. Sovereign entities and their international financial obligations do not have commercial mortality, and the international system does not allow the unilateral denial of a sovereign obligation. Furthermore, the international system provides several mechanisms and institutions through which countries facing repayment difficulties can effect remedial measures in agreement with their creditors. Therefore, except in the rare instance of a write-off of asset value agreed to by creditors, the ultimate collectibility of a sovereign obligation, and thus its asset value, is not, in the opinion of management, subject to question although delays may have to be accepted.

It is the policy of the Corporation to charge to income, in addition to any specific provisions made as a result of the review of the outstanding loans, an amount sufficient to maintain an accumulated non-specific allowance proportionate to the total loan principal and interest receivable for which no specific provision has been made.

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Continued*

Insurance premiums

For global export insurance policies, premiums are taken into income at the commencement of coverage. Premiums on other export insurance policies are taken into income using methods which generally reflect the exposures over the terms of the policies. Foreign investment insurance premiums are taken into income evenly over the terms of coverage, except that the premium in the first year is taken into income in its entirety when received.

Allowance for claims on insurance and guarantees

The Corporation provides for claims based on claims experience augmented, if necessary, by a specific provision based on a review of contingent liabilities. Claims payments are recorded at estimated recoverable values and included with other assets and non-recoverable amounts are charged to the allowance. Subsequent net gains or losses on recovery are credited or charged to income.

Translation of foreign currency

The Corporation hedges its U.S. dollar assets and liabilities on a total portfolio basis. Any net exposure to future changes in the U.S. dollar foreign exchange rate is due to short-term timing differences in cash flows. It is the Corporation's policy to manage assets and liabilities denominated in U.S. dollars in such a way as to minimize this net exposure. Accordingly, assets and liabilities denominated in U.S. dollars are translated into Canadian dollars at exchange rates prevailing at year-end.

Gains and losses relating to the translation of any unhedged long-term foreign currency assets or liabilities in other than U.S. dollars are deferred and amortized on a straight line basis over the remaining life of the asset or liability. The unamortized balance of the deferred exchange gains or losses is included in deferred revenues or other assets.

Income and expenses are translated at average monthly exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are reported with investment interest earned.

2. Loans receivable

Loans receivable from both sovereign and commercial borrowers, net of participation by other lenders of $64,294 thousand (1984—$65,906 thousand), are mostly at fixed interest rates established in competition with similar export credit agencies in other countries and generally below commercial rates. These loans mature as follows:

	December 31	
	1985	1984
	(in thousands of dollars)	
Within 12 months		
—Fixed	691,178	627,192
—Floating	56,625	39,875
Overdue	216,938	154,391
1986		692,068
1987	751,472	674,885
1988	788,687	704,733
1989	767,706	655,644
1990	672,766	567,693
1991 to 1995	1,761,247	1,329,842
1996 and thereafter	369,607	204,155
Total	6,076,226	5,650,478
Commercial loans included above	1,167,519	1,509,481
Floating rate loans, generally based on Libor rates, included above	568,842	383,495

The geographic distribution of these loans is as follows:

	December 31	
	1985	1984
	(in thousands of dollars)	
Pacific	340,552	400,345
Asia	527,131	392,992
Middle East and East Africa	473,531	487,842
North and West Africa	1,237,147	1,089,087
Eastern Europe	707,171	647,212
Western Europe	648,528	643,800
USA and Caribbean	771,643	715,181
Mexico and Central America	337,506	369,895
South America East	500,939	471,706
South America West	532,078	432,418
	6,076,226	5,650,478

During 1985, overdue interest of $63,528 thousand (1984—$77,042 thousand) was recognized as earned. Total accumulated overdue interest of $198,816 thousand (1984—$135,288 thousand) has been recognized as earned. Interest not accrued on loans amounted to $43,824 thousand (1984—$2,966 thousand). Total accumulated interest not accrued on loans amounted to $49,555 thousand (1984—$5,731 thousand).

The geographic distribution of the overdue principal and interest, in the amounts of $216,938 thousand (1984—$154,391 thousand) and $248,371 thousand (1984—$141,019 thousand) respectively, is as follows:

	December 31	
	1985	1984
	(in thousands of dollars)	
Pacific	1,716	880
Asia	820	
Middle East and East Africa	21,258	5,252
North and West Africa	40,548	22,385
Eastern Europe	104,539	67,685
Western Europe	8,442	9,979
USA and Caribbean	20,838	10,082
Mexico and Central America	33,771	33,601
South America East	129,821	96,240
South America West	103,556	49,306
	465,309	295,410

In order to facilitate the collectibility of some loans or portions of loans, the Corporation has rescheduled principal and interest payments in the following amounts:

	December 31	
	1985	1984
	(in thousands of dollars)	
During the year		
Principal	52,143	68,759
Interest	29,239	18,620
	81,382	87,379
Balance of rescheduled loans outstanding		
Sovereign	289,465	213,031
Commercial	36,752	24,999
	326,217	238,030
Amounts overdue	21,806	7,297

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Continued*

3. Loans payable

Loans payable mature as follows:

	December 31 1985	December 31 1984
	(in thousands of dollars)	
Within 12 months		
—Fixed	480,578	488,665
—Floating	1,635,339	1,533,345
1986		443,383
1987	792,231	864,657
1988	1,180,185	1,115,726
1989	538,828	491,917
1990 to 1994	1,395,411	456,472
Total	6,022,572	5,394,165
Commercial loans included above		
Fixed interest rates from 5.38% to 16.88% (1984—5.38% to 16.88%)	4,120,221	3,296,196
Floating rate and short-term fixed rate revolving loans	1,747,854	1,840,285
Canada loans included above		
Fixed interest rates from 5.50% to 9.13% (1984—5.50% to 9.25%)	154,497	257,684

4. Share capital

The authorized share capital is $1.5 billion consisting of 15 million shares with a par value of $100 each. The number of shares issued and fully paid is as follows:

	December 31 1985	December 31 1984
	(in thousands)	
Beginning of year	6,600	5,810
Issued	370	790
End of year	6,970	6,600

5. Statutory limits, commitments and contingent liabilities

The Export Development Act (the Act) allows the Corporation to have outstanding loans and commitments to foreign borrowers up to a maximum of $15 billion. The position against this limit, determined in accordance with the requirements of the Act, is as follows:

	December 31 1985	December 31 1984
	(in thousands of dollars)	
Loans receivable, net of participation	6,076,226	5,650,478
Undisbursed commitments on signed loan agreements, net of participation without recourse, most of which were signed between December, 1975 and December, 1985 at face rates from 7.75% to 14.41% (1984—between December, 1975 and December, 1984 at face rates from 7.75% to 13.60%)	2,846,209	3,302,566
Participation by other lenders with recourse in loans receivable	11,557	1,610
Less: amounts not subject to statutory limit	39,737	88,761
	8,894,255	8,865,893
Contingent liabilities included above	11,557	1,610

It is anticipated that undisbursed commitments under signed loan agreements will be disbursed as delivery of goods and services or progress on projects is achieved, the average period of disbursement being typically three years. The Corporation expects to fund these commitments near the time of disbursement by issuing a combination of debt instruments in world capital markets at commercial rates of interest and capital stock, while generally attempting to match debt maturities and currencies with those of its average export loans. Owing to fluctuations in interest rates and other factors beyond its control, the Corporation is not always able to fund its undisbursed loan commitments at interest rates which would result in a profit.

The Act also specifies that the Corporation can incur liabilities under contracts of insurance, related guarantees and guarantees pertaining to the lending program up to a maximum of $15 billion. The position against this limit, determined in accordance with the requirements of the Act, is as follows:

	December 31 1985	December 31 1984
	(in thousands of dollars)	
Insurance and related guarantees	2,483,804	2,274,935
Loan guarantees —Disbursed	201,717	185,038
—Undisbursed	6,889	7,874
	2,692,410	2,467,847
Contingent liabilities included above	1,863,314	2,009,817

The Act allows the Corporation to borrow up to a maximum of 10 times the aggregate of its paid-in capital from time to time and the retained earnings determined in accordance with the most recent audited financial statements. As at December 31, 1985, this formula produced a limit of $8,915 million, (1984—$8,481 million) against which borrowings amounted to $6,023 million (1984—$5,394 million).

6. Short-term deposits and loans payable

Activity in respect of short-term deposits and loans payable is as follows:

	Year ended December 31 1985	Year ended December 31 1984
	(in thousands of dollars)	
Short-term deposits		
Daily average	757,100	820,600
High	1,187,800	1,248,700
Low	450,800	416,800
Short-term loans payable		
Daily average	1,710,600	1,670,600
High	2,182,100	2,147,800
Low	1,489,400	1,209,500

The Corporation also had lines of credit and overdraft facilities aggregating $3,211 million at December 31, 1985 (1984—$2,095 million).

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Continued*

7. Foreign currency balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. The Canadian dollar equivalent after taking into consideration forward exchange contracts is as follows:

	December 31 1985	1984
	(in thousands of dollars)	
U.S. Dollars		
Assets	5,369,446	4,582,919
Liabilities	5,560,755	4,555,791
Net exposure	(191,309)	27,128
Rate of exchange U.S. $1.00	1.3983	1.3217
British pounds, Deutsche marks, European Currency Units, Swiss francs and Yen		
Assets	42,857	116,702
Liabilities	36,448	291,917
Net exposure	6,409	(175,215)

8. Related party transactions

Transactions with Canada are summarized as follows:

	Year ended December 31 1985	1984
	(in thousands of dollars)	
Income and expense items		
Interest expense	14,853	23,758
Less: administrative expenses recovered	6,476	6,472
interest earned	467	925
	7,910	16,361

	December 31 1985	1984
	(in thousands of dollars)	
Amounts due to (due from) Canada		
Canada bonds, bearing interest at the rate of 9.50% maturing in 1994	(5,043)	(5,048)
Accrued interest receivable	(21)	(23)
Accounts administered for Canada (Note 10)	13,416	19,255
Long-term loans payable	154,497	257,684
Accrued interest payable	3,647	7,175
	166,496	279,043

The Government of Canada intends to recommend that Parliament appropriate such funds as are necessary to cover losses, if any, of the Corporation. To date, no such funds have been necessary.

The Corporation is not subject to the requirements of the Income Tax Act with respect to its earnings.

The Corporation also enters into transactions with other Crown corporations in the normal course of business.

9. Segmented information

Loans and insurance are the Corporation's significant industrial segments.

Loans and guarantees and insurance and guarantees on the Statement of Income and Retained Earnings reflect income from operations of the two segments before deduction of administrative expenses.

The assets of the Corporation are predominantly identifiable with the loans and guarantees program. The geographic distribution of loans is shown in Note 2.

Loan interest and fees earned outside Canada for the year ended December 31, 1985 was $570 million (1984—$551 million).

Insurance premiums and fees are earned in Canada.

10. Accounts administered for Canada

(a) Pursuant to the Act, the Corporation administers for Canada certain loans and insurance programs entered into under the authority of the Governor in Council for which the Board of Directors is not accountable other than in respect of the administration of the contracts.

The summarized financial information set out below is provided for purposes of accountability to Parliament and is consolidated annually, as at March 31, with the financial statements of the Government of Canada which are reported upon separately by the Auditor General of Canada. This financial information has been prepared in all material respects in accordance with the accounting policies set out in Note 1, except that no allowances have been made for losses on loans receivable or for claims on insurance and guarantees, and the Corporation's policy regarding non-current loans has not been applied.

Loans receivable, which are recorded at amounts disbursed net of repayments, include some loans where the interest rates were significantly below commercial rates at the time the contract was entered into.

	December 31 1985	1984
	(in thousands of dollars)	
Assets		
Loans receivable (Note 10 (b))		
Principal	1,043,244	985,188
Less: participation by other lenders	13,030	19,744
	1,030,214	965,444
Accrued interest and fees	98,170	76,299
Other receivables	48	15
Due from the Corporation (Note 8)	13,416	19,255
	1,141,848	1,061,013

These assets were funded by Canada as follows:

	Year ended December 31 1985	1984
	(in thousands of dollars)	
Funds provided by Canada less repayments of principal and interest, net of participation	(61,095)	19,876
Loans interest, fees, insurance and guarantee premiums earned	127,115	111,774
Claims paid, net of recoveries	(3,661)	(5,591)
Administrative expenses	(6,476)	(6,472)
Increase in payables to Canada	24,952	41,097
	80,835	160,684
Assets funded by Canada		
Beginning of year	1,061,013	900,329
End of year	1,141,848	1,061,013

EXPORT DEVELOPMENT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

(b) Canada account loans receivable

Loans receivable from both sovereign and commercial borrowers, net of participation by other lenders, mature as follows:

	December 31 1985	December 31 1984
	(in thousands of dollars)	
Overdue	109,843	78,712
1985		72,261
1986	76,195	75,176
1987	74,885	74,034
1988	68,870	65,284
1989	61,332	52,568
1990	59,981	50,046
1991 to 1995	385,449	337,687
1996 and thereafter	193,659	159,676
Total	1,030,214	965,444
Commercial loans included above	44,037	73,987
Overdue interest	89,442	61,583

In order to facilitate the collectibility of some loans or portions of loans, agreements have been concluded with the approval of the Governor in Council to reschedule principal and interest payments due from sovereign borrowers in the current year in the following amounts:

	December 31 1985	December 31 1984
	(in thousands of dollars)	
Principal	22,418	8,758
Interest	11,677	1,782
	34,095	10,540
Balance of rescheduled sovereign loans outstanding	84,443	52,175
Amounts overdue	9,417	6,413

(c) Canada account statutory limits, commitments and contingent liabilities

The Act allows the Accounts administered for Canada to have outstanding loans and commitments to foreign borrowers up to a maximum of $6 billion. The position against this limit, determined in accordance with the requirements of the Act, is as follows:

	December 31 1985	December 31 1984
	(in thousands of dollars)	
Loans receivable, net of participation	1,030,214	965,444
Undisbursed commitments on signed loan agreements, net of participation without recourse	405,494	373,237
Participation by other lenders with recourse in loans receivable	13,030	19,744
Less: amounts not subject to statutory limit	10,974	2,591
	1,437,764	1,355,834
Contingent liabilities included above	13,030	19,744

The Act also specifies that the Accounts administered for Canada can incur liabilities under contracts of insurance, related guarantees and guarantees pertaining to the lending program up to a maximum of $7 billion. The position against this limit, determined in accordance with the requirements of the Act, was $428 million (1984—$428 million) including contingent liabilities of $374 million (1984—$374 million).

SUMMARY PAGE

FARM CREDIT CORPORATION

MANDATE

To assist Canadian farmers to establish and develop viable farm enterprises through the provision of long-term credit and other financial services.

BACKGROUND

Since 1959, under the authority of the *Farm Credit Act*, the corporation has made loans to farmers for the purchase of farm lands, for permanent farm improvements, for the purchase of livestock and machinery, and to refinance debt. Under the authority of the *Farm Syndicates Credit Act*, the corporation may make loans to groups of farmers for the joint acquisition of agricultural facilities and equipment. The maximum loan for an individual farm is $400,000 and for a syndicate is $100,000. As of March 31, 1986 the corporation had 78,183 loans outstanding. The corporation has 571 employees stationed at headquarters, seven regional offices and about 100 district and field offices.

CORPORATION DATA

HEAD OFFICE	P.O. Box 2314 Station D 434 Queen Street Ottawa, Ontario K1P 6J9
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Wise, P.C., M.P.
DEPARTMENT	Agriculture
DATE AND MEANS OF INCORPORATION	Established in 1959 by the *Farm Credit Act*. Its predecessor was the Canadian Farm Loan Board, founded in 1929.
CHIEF EXECUTIVE OFFICER AND CHAIRMAN	Eiliv H. Anderson
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	**1984-85**	**1983-84**	**1982-83**
At the end of the period				
Total Assets	5,015	4,940	4,901	4,300
Obligations to the private sector	984	571	306	50
Obligations to Canada	3,896	4,110	4,310	3,955
Equity of Canada	8	129	131	164
Cash from Canada in the period				
— budgetary	nil	nil	nil	nil
— non-budgetary, net	(214)	(171)	378	394

FARM CREDIT CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared by management in accordance with accounting principles which are generally accepted in Canada and which have been consistently applied. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal controls is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations. In addition, the internal and external auditors have full and free access to the Audit Committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

These financial statements have been independently examined by the Corporation's auditor, the Auditor General of Canada, and his report is included herein.

Eiliv H. Anderson
Chairman and Chief Executive Officer

William G. Mann, C.A.
Comptroller and Chief Financial Officer

AUDITOR'S REPORT

THE HONOURABLE JOHN WISE, P.C., M.P.
MINISTER OF AGRICULTURE

I have examined the balance sheet of Farm Credit Corporation as at March 31, 1986 and the statements of operations and deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Farm Credit Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 12, 1986

BALANCE SHEET AS AT MARCH 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Cash and short-term investments	112,348	
Accounts receivable	192	92
Loans receivable (Note 3)	5,018,898	4,992,728
Less: allowance for loan losses (Note 4)	190,400	105,400
	4,828,498	4,887,328
Real estate	45,805	26,987
Fixed assets	1,983	1,738
Unamortized debt issue expenses	26,210	24,084
	5,015,036	4,940,229

LIABILITIES	1986	1985
Bank indebtedness		161
Accounts payable and accrued liabilities	6,842	6,223
Short-term notes	237,497	97,333
Provision for employee termination benefits	4,583	2,844
Loans payable (Note 5)	4,758,415	4,704,563
	5,007,337	4,811,124
EQUITY OF CANADA		
Contributed capital (Note 6)	218,333	218,333
Deficit	210,634	89,228
	7,699	129,105
	5,015,036	4,940,229

The accompanying notes are an integral part of the financial statements.

Approved by the Board:

EILIV H. ANDERSON
Chairman and Chief Executive Officer

PAUL BABEY
Vice-Chairman and Chief Operating Officer

FARM CREDIT CORPORATION—*Continued*

STATEMENT OF OPERATIONS AND DEFICIT FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Interest income		
Loans receivable	509,497	514,410
Investments	11,098	12,851
	520,595	527,261
Interest expense		
Loans payable	452,978	466,670
Short-term notes	21,727	13,312
	474,705	479,982
Net interest income	45,890	47,279
Provision for loan losses	133,972	46,278
	(88,082)	1,001
Fees and other income	1,637	907
	(86,445)	1,908
Administrative expenses		
Salaries and employee benefits	26,298	23,978
Travel	2,494	2,183
Office accommodation	2,429	2,353
Other	3,740	3,572
	34,961	32,086
Loss for the year	121,406	30,178
Deficit at beginning of the year	89,228	59,050
Deficit at end of the year	210,634	89,228

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Cash provided by (used in) operating activities		
Loss for the year	(121,406)	(30,178)
Items not involving cash		
Provision for loan losses	133,972	46,278
Losses on loans receivable	(14,660)	(7,283)
Write-down and losses on real estate	(34,312)	(20,245)
Increase in interest due on loans receivable	(70,159)	(45,754)
Net change in accrued interest	3,800	(32,458)
Other	2,008	(1,506)
	(100,757)	(91,146)
Loans to farmers	(222,447)	(258,193)
Loans receivable repaid	256,286	235,247
Increase in real estate	(18,818)	(12,686)
Other	5,073	4,571
Cash used in operating activities	(80,663)	(122,207)
Cash provided by (used in) financing activities		
Loans from Canada	42,500	667,200
Loans repaid to Canada	(256,868)	(867,025)
Loans from Capital Markets	273,459	167,543
Debt issue expenses	(6,083)	(12,233)
Net increase in short-term notes	140,164	97,333
Capital contributed by Canada		28,400
Cash provided by financing activities	193,172	81,218
Net increase (decrease) in cash and short-term investments	112,509	(40,989)
Cash and short-term investments (bank indebtedness) at beginning of year	(161)	40,828
Cash and short-term investments (bank indebtedness) at end of year	112,348	(161)

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1986

1. The Corporation

Farm Credit Corporation was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is a Crown corporation named in Schedule C, Part I of the Financial Administration Act. The Corporation's prime objective is to assist Canadian farmers to establish and develop viable farm enterprises through the use of long-term credit as provided for by the Farm Credit Act.

The Corporation also administers the lending program authorized under the Farm Syndicates Credit Act which was originally introduced as the Farm Machinery Syndicates Credit Act in 1964. It provides for loans to groups or syndicates of farmers organized to share in the purchase and use of farm machinery, buildings and installed equipment.

Under the provisions of the Farm Credit Act, the Corporation is also required to administer certain programs assigned to it by the Government. The Corporation extended credit under the Special Farm Financial Assistance Program, a temporary program which expired in June 1984, introduced to assist farmers in financial difficulty.

2. Significant accounting policies

(a) Allowance for loan losses

The allowance for loan losses relates to loans receivable and represents an estimate of future probable losses on the accounts outstanding at the end of the year. With respect to this estimate, the Corporation recognizes that future economic and agricultural conditions are not predictable and, therefore, their impact on the collectability of loans is uncertain.

Actual losses on loans and write-downs of acquired real estate to net realizable value are charged to the allowance while recoveries of loan losses are credited to the allowance. The adjustment of the allowance to the appropriate level is charged to operations as a provision for loan losses.

(b) Revenue recognition

Interest income is recorded on an accrual basis. Interest is not accrued on non-performing loans, which are defined as those where there is reasonable doubt as to collectability and are under legal recovery action.

Loan application fees are recorded when received. Appraisal fees withheld from loan funds are recorded at the time the loans are disbursed. Partial discharge fees are recorded when the discharge occurs.

Service charges earned on loans to farm syndicates are recorded when loans are disbursed.

Penalties charged on loan prepayments are recorded at the time the prepayments are applied as a reduction of loan principal.

Fees relating to mortgage assumptions, exchange of securities and renewal of term mortgages are recorded when the related mortgage documents are prepared.

(c) Real estate

Real estate is carried at the lower of cost and net realizable value. It represents farm property acquired in the process of administering the outstanding loans receivable and must be disposed of within five years of acquisition or such further period as the Governor in Council may prescribe.

(d) Fixed assets

Fixed assets are recorded at cost less accumulated depreciation. Leasehold improvements are amortized using the straight-line method over the term of the lease and one renewal period. Computer hardware and software are depreciated using the straight-line method over their

FARM CREDIT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Continued*

estimated useful lives. Other fixed assets are depreciated using the diminishing balance method at annual rates of 20% for furniture and equipment and 30% for automobiles.

(e) Debt issue expenses

Discounts and expenses relating to the issuance of debt are amortized on a straight-line basis over the life of the debt and included in interest expense on loans payable.

(f) Translation of foreign currencies

Loans payable in foreign currencies are hedged by currency conversion agreements and are translated into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are considered to be financing costs and are therefore amortized by charges to interest expense over the lives of the obligations on a straight-line basis. The unamortized portion of these costs is included with unamortized debt issue expenses in the balance sheet. The related interest payable in foreign currencies on these debt issues is also hedged by currency conversion agreements and is translated into Canadian dollars at such contract rates.

(g) Pension plan

The Corporation's employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are made equally by both employees and the Corporation, and these contributions in respect of current service are expensed during the year in which the services are rendered.

(h) Employee termination benefits

On termination of employment, employees of the Corporation are entitled to severance benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(i) Income taxes

The Corporation records income taxes on the tax allocation basis which recognizes the income tax effect on transactions when they are recorded in accounting income, regardless of when such items are recognized for tax purposes.

3. Loans receivable

	Maturities not exceeding	Annual interest rate %	1986	1985
			(in thousands of dollars)	
Loans to farmers, secured by mortgages	25 years	5-7 ⅞	614,034	671,919
	26 years	8-10 ⅞	1,825,680	1,898,708
	26 years	11-12 ⅞	1,662,452	1,730,870
	27 years	13-16 ¾	877,242	654,699
			4,979,408	4,956,196
Loans to farm syndicates, secured by notes	15 years	6 ¼-17 ½	9,012	11,512
Loans receivable from real estate sales, secured by agreements for sale or mortgages	26 years	5-15 ¾	30,478	25,020
			5,018,898	4,992,728

Maturities by fiscal year are as follows:

	1986	1985
	(in thousands of dollars)	
1986		502,998
1987	578,077	138,036
1988	139,920	148,228
1989	149,770	158,937
1990	160,017	170,538
1991	171,437	182,709
1992 through 2013	3,819,677	3,691,282
	5,018,898	4,992,728

At March 31, 1986 accrued interest of $254.0 million (1985—$263.0 million) and arrears of $247.9 million (1985—$164.2 million) are included in loans receivable and shown as maturing in the year ending March 31, 1987. During the year, interest not recognized on non-performing loans amounted to $5.4 million.

Prepayments of principal from farmers of $106.3 million (1985—$101.6 million) were received during the year.

4. Allowance for loan losses

The allowance for loan losses at March 31, 1986 reflects the Government's $20 million commitment to reduce the impact of future probable loan losses on the Corporation. This $20 million commitment was made in the February 26, 1986 Budget as part of the Federal Government's Farm Financial Assistance package.

5. Loans payable

	Maturities not exceeding	Annual interest rate %	1986	1985
			(in thousands of dollars)	
Loans from Canada, secured by notes Farm Credit Act	11 years	5-7 ⅞	625,951	731,478
	15 years	8-10 ⅞	1,529,561	1,552,067
	16 years	11-12 ⅞	1,730,977	1,815,966
			3,886,489	4,099,511
Farm Syndicates Credit Act	8 years	9 ¾-16 ½	9,172	10,518
			3,895,661	4,110,029
Loans from capital markets, secured by notes Farm Credit Act	10 years	8 ¾-12 ¼	735,312	461,575
Amounts owing in respect of interest rate and currency conversion agreements	10 years	8 ¾-11	11,290	11,568
			4,642,263	4,583,172
Accrued interest			116,152	121,391
			4,758,415	4,704,563

FARM CREDIT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

Maturities by fiscal year are as follows:

	1986	1985
	(in thousands of dollars)	
1986		318,260
1987	327,854	191,198
1988	211,885	187,996
1989	230,534	203,330
1990	861,462	830,469
1991	460,136	382,667
1992 through 2004	2,666,544	2,590,643
	4,758,415	4,704,563

At March 31, 1986 accrued interest of $116.2 million (1985—$121.4 million) is shown as maturing in the year ending March 31, 1987.

The Corporation has received blanket approval from Treasury Board Canada to borrow an amount not exceeding $601 million from the capital markets during the year ending March 31, 1987. Individual approval is required from the Minister of Finance for each borrowing.

6. Contributed capital

The contributed capital of the Corporation represents the amount received from Canada under Section 12 of the Farm Credit Act. The statutory limit on this amount is $225.0 million (1985—$225.0 million). During the year, no capital (1985—$28.4 million) was contributed by Canada.

7. Income taxes

At March 31, 1986 the Corporation has available various timing differences of approximately $186.0 million which have not been recognized in the accounts and which result primarily from differences between the provision for loan losses charged to operations and the amount claimed for tax purposes pursuant to Section 33 of the Income Tax Act.

8. Limits on borrowing

The Farm Credit Act limits the aggregate amount outstanding of the principal borrowings by the Corporation pursuant to the Act to twenty-five times the capital of the Corporation. At March 31, 1986 the Corporation's outstanding borrowings under this Act, comprising short-term notes of $237.5 million and loans payable of $4,621.8 million, were 22.26 times the capital of $218.3 million (1985—21.33 times).

The Farm Syndicates Credit Act limits the loans from Canada pursuant to the Act to twenty-five million dollars. At March 31, 1986 the Corporation's loans from Canada under this Act were $9.2 million (1985—$10.5 million).

9. Commitment to farmers

As at March 31, 1986 loans to farmers approved but not disbursed amounted to $44.3 million (1985—$41.2 million), most of which were approved at rates ranging from 11 ½% to 12 ½%. It is expected that the majority of these loans will be disbursed within the six-month period ending September 30, 1986 from funds to be borrowed by the Corporation at prevailing commercial rates of interest at the time of borrowing.

10. Operating leases

The future minimum lease payments by fiscal year required under operating leases having initial non-cancellable lease terms in excess of one year are as follows:

	(in thousands of dollars)
1987	1,575
1988	1,102
1989	754
1990	648
1991	510
1992 and subsequent	1,803
	6,392

These leases generally provide for the payment by the Corporation of real estate taxes and operating expenses in excess of those amounts established at the commencement of the lease term.

11. Segmented information

The Corporation operates in one business segment, providing long-term loans to Canadian farmers.

12. Subsequent Event—Commodity-based Loan Program

In the February 26, 1986 Budget, the Government directed the Corporation to establish a $700 million loan program (up to $300 million in 1986-87 and up to an additional $400 million in 1987-88) to make commodity-based mortgages available to existing clients who are experiencing financial difficulty and who meet the eligibility criteria.

The Commodity-based Loan Program is expected to reduce the number of farm failures among existing borrowers by providing a financing instrument with debt obligations and payments which vary according to the ability of the farm business to pay because of variable commodity prices.

13. Comparative figures

Certain 1985 comparative figures have been reclassified to reflect the presentation adopted in 1986.

SUMMARY PAGE

FEDERAL BUSINESS DEVELOPMENT BANK

MANDATE

To promote and assist in the establishment and development of business enterprises in Canada by providing financial assistance, management counselling, management training, information and advice.

BACKGROUND

Since 1974, the Bank has provided financial assistance to Canadian firms by acting as a supplementary lender and a source of equity financing. It also provides financial planning, counselling and training, information and other management services.

CORPORATION DATA

HEAD OFFICE	800 Victoria Square Box 335 Stock Exchange Tower Station Montreal, Quebec H4Z 1L4
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Michel Côté, P.C., M.P.
DEPARTMENT	Regional Industrial Expansion
DATE AND MEANS OF INCORPORATION	1974, the *Federal Business Development Bank Act* (Successor to the Industrial Development Bank, established 1944).
CHIEF EXECUTIVE OFFICER	Guy A. Lavigueur
CHAIRMAN	William J. McAleer
AUDITOR	Maheu Noiseux and Price Waterhouse

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	1,595	1,566	1,616	1,907
Obligations to the private sector	1,184	1,023	921	1,004
Obligations to Canada	144	263	420	592
Equity of Canada	207	202	200	207
Cash from Canada in the period				
— budgetary	26	31	78	118
— non-budgetary	nil	nil	nil	26

FEDERAL BUSINESS DEVELOPMENT BANK

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements were prepared by the management of the Federal Business Development Bank in accordance with accounting principles generally accepted in Canada, consistently applied. The financial data contained in other sections of this annual report is consistent with the content of the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains a system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal controls is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice-President, Internal Audit and the Independent Auditor have full and free access to the Audit Committee of the Bank's Board of Directors which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

These financial statements have been examined and reported upon by the Bank's independent auditor, Mr. Raymond J. Morcel, F.C.A. of Price Waterhouse, Chartered Accountants.

Guy A. Lavigueur
President

AUDITOR'S REPORT

THE HONOURABLE MINISTER OF REGIONAL INDUSTRIAL EXPANSION
THE HONOURABLE MINISTER OF STATE SMALL BUSINESSES

I have examined the balance sheet of the Federal Business Development Bank as at March 31, 1986, and the statements of operations, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Federal Business Development Bank as at March 31, 1986, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, I have examined the transactions that came to my notice in the course of the above mentioned examination of the financial statements of the Federal Business Development Bank for the year ended March 31, 1986, to determine whether they were in accordance with Part XII of the Financial Administration Act, the regulations, the FBDB Act and the by-laws of the Bank. My examination of these transactions was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances. In my opinion, these transactions were, in all significant respects, in compliance with the authorities specified.

Raymond J. Morcel, F.C.A.
of Price Waterhouse

Montreal, June 4, 1986

BALANCE SHEET AS AT MARCH 31
(in thousands of dollars)

ASSETS	1986	1985
Cash	968	504
Treasury bills	14,093	41,523
	15,061	42,027
Securities issued by Canada		40,495
Loans	1,646,695	1,560,019
Venture capital investments (Note 4)	35,108	34,640
Interest due and accrued	21,657	29,302
	1,703,460	1,623,961
Less: accumulated provision for losses (Note 5)	141,831	157,737
	1,561,629	1,466,224
Fixed assets, less accumulated depreciation	5,766	5,130
Unamortized debt issue expenses	8,501	3,371
Other assets	4,030	8,838
	1,594,987	1,566,085

LIABILITIES	1986	1985
Cheques outstanding	10,513	16,393
Short-term notes	365,359	318,889
Accrued interest on short and long-term notes	41,601	49,787
Other liabilities	8,251	12,245
	425,724	397,314
Notes held by Canada (Note 6)	144,000	263,000
Notes payable, other than to Canada (Note 7)	818,371	703,708
	1,388,095	1,364,022
CAPITAL		
Capital paid in by Canada (Note 8)	456,600	456,600
Deficit	(249,708)	(254,537)
	206,892	202,063
	1,594,987	1,566,085

Approved by the Board:

H. H. MACKAY
Director

GUY A. LAVIGUEUR
Director

FEDERAL BUSINESS DEVELOPMENT BANK—*Continued*

FINANCIAL SERVICES

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31 (in thousands of dollars)

	1986	1985
Interest and Investment Income		
Loans	210,139	213,000
Venture capital investments	8,054	4,817
	218,193	217,817
Interest Expense		
Long-term notes	103,507	127,818
Short-term notes	35,195	17,027
	138,702	144,845
Net interest and investment income	79,491	72,972
Provision for losses on loans, guarantees and venture capital investments	24,041	17,052
Net interest and investment income after provision for losses	55,450	55,920
Non-Interest Expenses		
Salaries and staff benefits	31,484	33,779
Premises and equipment, including depreciation	7,160	8,730
Other expenses	11,977	12,479
	50,621	54,988
Income before extraordinary item	4,829	932
Extraordinary item (Note 3)		(5,627)
Net income (loss) for the year (Note 13)	4,829	(4,695)
Net income (loss) attributable to		
Loans Division	1,456	(7,807)
Investment Banking Division	3,373	3,112

STATEMENT OF DEFICIT FOR THE YEAR ENDED MARCH 31 (in thousands of dollars)

	1986	1985
Deficit, beginning of year	(254,537)	(249,842)
Net income (loss) for the year	4,829	(4,695)
Deficit, end of year	(249,708)	(254,537)

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31 (in thousands of dollars)

	1986	1985
Operations		
Income before extraordinary item	4,829	932
Items not requiring an outlay of cash		
Provision for losses	24,041	17,052
Depreciation	1,032	1,727
Amortization of debt issue expenses	3,079	2,948
Net changes in accrued interest	(541)	(2,260)
Extraordinary item		(5,627)
Other	3,048	7,250
	35,488	22,022
Disbursements to borrowers and investees	(482,751)	(347,602)
Repayments by borrowers and investees	351,758	355,772
Cash provided from (used in) operations	(95,505)	30,192
Treasury		
Issue of long-term notes	378,418	50,000
Repayment of long-term notes	(382,755)	(324,260)
Net increase in short-term notes	46,470	218,963
Capital paid in by Canada		7,000
Sale of securities	40,495	
Debt issue expenses	(8,209)	(810)
	74,419	(49,107)
Decrease in cash and Treasury bills, net of cheques outstanding	(21,086)	(18,915)
Cash and Treasury bills, net of cheques outstanding		
Beginning of year	25,634	44,549
End of year	4,548	25,634

MANAGEMENT SERVICES

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31 (in thousands of dollars)

	1986	1985
Salaries and staff benefits	12,898	12,129
Premises and equipment	3,251	4,268
Training and information service publications	1,457	1,245
CASE counselling fees	3,235	2,829
Other expenses	10,840	7,942
Total expenditures	31,681	28,413
Less: revenue from CASE counselling, training seminar registration and other activities	5,752	4,305
Amount recovered from the Department of Regional Industrial Expansion Vote 45 (Vote 50 in 1985)	25,929	24,108
Total expenditures were incurred as follows		
Management Counselling	7,674	7,169
Management Training	7,279	4,466
Information Services	12,133	11,568
Administration	4,595	5,210
	31,681	28,413

FEDERAL BUSINESS DEVELOPMENT BANK—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986

1. Objectives and operations of the Corporation

Federal Business Development Bank is a Crown corporation wholly-owned by the Government of Canada, which was established December 20, 1974, by the Federal Business Development Bank Act, as the successor to the Industrial Development Bank which commenced operations in 1944.

The objectives of the Bank, as stated in the Act, are to promote and assist in the establishment of business enterprises in Canada by providing financial assistance, management counselling, management training, information and advice; giving particular consideration to the needs of small business enterprises.

The Bank's lending and investment banking operations are carried out by Financial Services. Management Services includes counselling, training and information services. A statement of operations is shown for Management Services since it is funded separately by Parliamentary appropriation.

Federal Business Development Bank is for all purposes of its Act an agent of the Government of Canada, and as such all liabilities of the Corporation are direct obligations of the Government of Canada.

The Bank is exempt from income taxes.

2. Significant accounting policies

Loans and venture capital investments

Loans and venture capital investments are recorded at principal amounts.

Provision for losses on loans, guarantees and venture capital investments

A charge against income is made to adjust the accumulated provision for losses to the level which provides for specifically identified probable losses on loans, guarantees and venture capital investments, as well as a general provision for unidentified losses. The general portion of the accumulated provision is based on historical experience and is intended to cover losses on loans, guarantees and venture capital investments which have not yet been specifically identified.

Revenue recognition

Interest on loans is recorded as income on an accrual basis except that interest is not accrued on loans where management believes that the interest will not be recovered. Dividends, interest and capital gains on venture capital investments are recorded as income when received.

Securities issued by Canada

Securities are carried at amortized value.

Fixed assets and depreciation

Fixed assets are recorded at cost.

Depreciation is charged against income using the straight-line or diminishing balance methods in amounts sufficient to amortize the cost of fixed assets over their estimated useful lives.

With respect to the Management Services function of the Bank, all capital expenditures are recovered from the Department of Regional Industrial Expansion and hence are not capitalized.

Debt issue expenses

Discounts, premiums and expenses related to the issue of the long-term debt are amortized on a straight-line basis over the term of the obligations to which they pertain and charged to interest expense.

Translation of foreign currencies

Notes payable in foreign currencies are hedged by forward exchange contracts and are translated into Canadian dollars at the rates provided therein. The difference between the ultimate amount payable at the contracted rate and the cash proceeds of the issue is considered to be a financing cost and is therefore amortized by a charge to interest expense over the life of the obligation on a straight-line basis. The unamortized portion of these costs is included with unamortized debt issue expenses in the balance sheet. The related interest payable on these note issues is also hedged by forward exchange contracts and is translated into Canadian dollars at such contract rates.

Interest rate futures

Interest rate futures transactions are undertaken with the intention of reducing the impact of interest rate fluctuations. Realized gains and losses on closed contracts are amortized on a straight-line basis over the periods to which they relate.

3. Extraordinary item

As a result of organizational realignments and cost reduction measures in fiscal 1985, $5,627,000 was incurred in connection with staff terminations, write-off of fixed assets, moving costs and the cost of carrying surplus space.

4. Venture capital investments

	1986	1985
	(in thousands of dollars)	
Shares	20,046	18,539
Shareholder advances	10,657	12,037
Participating debentures	1,242	942
Convertible debentures	3,163	3,122
	35,108	34,640

5. Accumulated provision for losses

	1986	1985
	(in thousands of dollars)	
Accumulated provision, beginning of year	157,737	195,190
Amounts written off during the year	(43,849)	(58,465)
Recovery of amounts previously written off	3,902	3,960
	117,790	140,685
Additional provision required for the year	24,041	17,052
Accumulated provision, end of year	141,831	157,737

6. Notes held by Canada

Maturities by fiscal year were as follows:

Rate %	1987	1988	Total
	(in thousands of dollars)		
9-9⅛	43,000		43,000
10-10⅛	50,000	51,000	101,000
	93,000	51,000	144,000

FEDERAL BUSINESS DEVELOPMENT BANK—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

7. Notes payable, other than to Canada

Maturities by fiscal year were as follows:

Rate %	1987	1988	1989	1990	1991	1992-95	Total
	(in thousands of dollars)						
8¾-9¾		55,000		27,600	53,968	74,975	211,543
10-11	3,000	78,000	53,000	69,875	3,000	12,000	218,875
12½-13⅝		109,600					109,600
14-14⅝	103,453	30,000	106,400				239,853
17¾	38,500						38,500
	144,953	272,600	159,400	97,475	56,968	86,975	818,371

The above includes notes payable of U.S. $183,195,000 and Yen 13,500,000,000.

8. Capital paid in by Canada

	1986	1985
	(in thousands of dollars)	
Capital, beginning of year	456,600	449,600
Cash paid in		7,000
Capital, end of year	456,600	456,600

9. Contingent liabilities and commitments

The Bank is contingently liable as guarantor of loans aggregating $16,600,000 against which management has made appropriate provision.

The undisbursed amount as at March 31, 1986, on loans and venture capital investments authorized, aggregated $185,712,000 (1985—$139,878,000).

10. Lease commitments

Future minimum lease commitments under operating leases related to the rental of Bank premises are as follows:

	(in thousands of dollars)
1987	4,987
1988	4,171
1989	3,273
1990	2,790
1991	2,284
1992-1996	13,293
	30,798

11. Pension plan

The Bank has a pension plan for its employees which is contributory and trusteed. Related costs, net of employees' contributions, are charged to earnings as paid. Based on an independent actuarial valuation, the plan was fully funded as at December 31, 1985.

12. Statutory limitations on operations

The Minister of Finance may, with the approval of the Governor in Council, authorize capital payments to the Bank not in excess of an aggregate amount determined by the application of Section 28 of the Federal Business Development Bank Act. Under current ministerial interpretation of the provisions of this Section, the Bank is presently authorized to receive capital payments to the extent that total capital paid in by Canada does not exceed $554 million. The total of direct and contingent liabilities of the Bank is limited to a maximum of 12 times the amounts of its capital and deficit (or up to 15 times with the approval of the Governor in Council) and may not exceed $3.2 billion.

13. Financial services

The statement of operations for Financial Services is comprised of the results of the Loans Division and the Investment Banking Division which are segregated below. Within the capital of the Bank as at March 31, 1985 and 1986, was an amount of $35.6 million provided by the Government of Canada to fund the venture capital investment portfolio.

	1986			1985		
	Loans	Investment Banking	Total	Loans	Investment Banking	Total
	(in thousands of dollars)					
Interest and investment income	210,139	8,054	218,193	213,000	4,817	217,817
Interest expense	138,702		138,702	144,845		144,845
Net interest and investment income	71,437	8,054	79,491	68,155	4,817	72,972
Provision for losses	21,539	2,502	24,041	17,489	(437)	17,052
Net interest and investment income after provision for losses	49,898	5,552	55,450	50,666	5,254	55,920
Non-interest expenses	48,442	2,179	50,621	52,846	2,142	54,988
Income (loss) before extraordinary item	1,456	3,373	4,829	(2,180)	3,112	932
Extraordinary item				(5,627)		(5,627)
Net income (loss)	1,456	3,373	4,829	(7,807)	3,112	(4,695)

14. Comparative financial data

Certain amounts pertaining to the fiscal year ended March 31, 1985, have been reclassified to conform with the presentation adopted for the fiscal year ended March 31, 1986.

SUMMARY PAGE

FRESHWATER FISH MARKETING CORPORATION

MANDATE

To regulate inter-provincial and export trade in freshwater fish.

BACKGROUND

The corporation's Act gives it a monopoly over inter-provincial and export trade in freshwater fish originating in the Northwest Territories, the three prairie provinces and parts of northern Ontario. The objectives of the corporation are (a) to market fish in an orderly manner; (b) to increase returns to fishermen; and (c) to promote international markets for and increase inter-provincial and export trade in, fish. The Act also requires the corporation to conduct its operations on a self- sustaining financial basis without appropriations.

CORPORATION DATA

HEAD OFFICE	1199 Plessis Road Winnipeg, Manitoba R2C 3L4
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Thomas Siddon, P.C., M.P.
DEPARTMENT	Fisheries and Oceans
DATE AND MEANS OF INCORPORATION	Established in 1968 by the *Freshwater Fish Marketing Act* (R.S.C. 1970, C. F-13)
CHIEF EXECUTIVE OFFICER	J.T. Dunn
CHAIRMAN	John McFarlane
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends April 30.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	25.5	25.0	19.5	23.3
Obligations to the private sector	nil	0.3	nil	nil
Obligations to Canada	14.7	13.6	9.8	18.1
Equity of Canada	1.9	1.6	1.3	1.1
Cash from Canada in the period				
— budgetary	nil	nil	nil	nil
— non-budgetary	2.2	3.5	(8.3)	3.3

FRESHWATER FISH MARKETING CORPORATION

AUDITOR'S REPORT

TO THE MINISTER OF FISHERIES AND OCEANS

I have examined the balance sheet of the Freshwater Fish Marketing Corporation as at April 30, 1986 and the statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at April 30, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Freshwater Fish Marketing Act and the by-laws of the Corporation.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
July 18, 1986

BALANCE SHEET AS AT APRIL 30, 1986

ASSETS	1986	1985
	$	$
Current		
Cash	1,403,010	
Accounts receivable		
Trade	5,785,304	4,338,544
Contributions (Note 3)	62,871	136,878
Other	701,413	954,024
Inventory		
Finished fish products	10,052,400	11,724,446
Packaging material and parts	822,272	928,532
Prepaid expenses	3,744	65,406
	18,831,014	18,147,830
Property, plant and equipment (Note 4)	6,632,215	6,807,631
	25,463,229	24,955,461

LIABILITIES	1986	1985
	$	$
Current		
Bank indebtedness		254,086
Accounts payable	2,133,752	2,184,503
Accrued interest payable	483,755	305,972
Working capital loans from Canada (Note 5)	12,000,000	9,787,000
Current portion of capital loans from Canada (Note 5)	2,652,589	883,046
Provision for final payments to fishermen	6,331,518	7,328,638
	23,601,614	20,743,245
Long-term		
Capital loans from Canada (Note 5)		2,627,159
	23,601,614	23,370,404
EQUITY		
Retained earnings	1,861,615	1,585,057
	25,463,229	24,955,461

Approved by the Board:

R. E. ENGLAND
Director

D. M. CAUVIN
Director

FRESHWATER FISH MARKETING CORPORATION—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED APRIL 30, 1986

	1986	1985
	$	$
Sales		
Domestic	7,599,310	6,139,216
Export	41,070,407	35,866,739
	48,669,717	42,005,955
Expenses		
Cost of sales	37,812,656	31,075,952
Interest (Note 6)	1,449,848	1,102,311
Salaries and employee benefits	1,013,033	1,010,944
Depreciation and amortization	900,487	757,620
Bad debts	38,979	121,962
Other	846,638	586,146
	42,061,641	34,654,935
Income before provision for final payments to fishermen and extraordinary item	6,608,076	7,351,020
Provision for final payments to fishermen	6,331,518	7,328,638
Income before extraordinary item	276,558	22,382
Extraordinary item (Note 7)		265,859
Net income for the year	276,558	288,241
Retained earnings at beginning of the year	1,585,057	1,296,816
Retained earnings at end of the year	1,861,615	1,585,057

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED APRIL 30, 1986

	1986	1985
	$	$
Source of funds		
Operations		
Income before extraordinary item	276,558	22,382
Depreciation and amortization not requiring an outlay of funds	900,487	757,620
Extraordinary item		265,859
	1,177,045	1,045,861
Application of funds		
Mortgage retirement		25,098
Additions to property, plant and equipment	725,071	1,248,342
Decrease in capital loans from Canada	2,627,159	883,046
	3,352,230	2,156,486
Increase in working capital deficiency	2,175,185	1,110,625
Working capital deficiency at beginning of the year	2,595,415	1,484,790
Working capital deficiency at end of the year	4,770,600	2,595,415

NOTES TO FINANCIAL STATEMENTS APRIL 30, 1986

1. Objectives and operations

The Corporation was established by the Freshwater Fish Marketing Act in 1969, as a corporation without share capital, for the purpose of marketing and trading in fish, fish products and fish by-products in and out of Canada. The Corporation is an agent Crown corporation named in Schedule C, Part I of the Financial Administration Act and is required to conduct its operations on a self-sustaining basis. Total loans outstanding from Canada and from banks may not exceed $30 million.

The Corporation has the exclusive right to market the products of the commercial fishery in the provinces participating in the program in inter-provincial and export trade. Participation of the provinces of Manitoba, Saskatchewan, Alberta and Ontario and the Northwest Territories was established by agreement with the Government of Canada.

2. Significant accounting policies

Inventories

Finished fish products are valued at the lower of cost and net realizable value. Packaging material and parts are valued at the lower of cost and replacement cost.

Depreciation and amortization

Depreciation is based on the estimated useful lives of the assets using the following methods and annual rates:

Buildings	—Lake stations	Straight-line	10%
	—Plant	Straight-line	2 ½%
Equipment	—Machinery and office equipment	Declining balance	10-25%
	—Automotive	Declining balance	30%
Fresh fish delivery tubs		Straight-line	10%
Packer vessel		Straight-line	6 ⅔%

Leasehold improvements are amortized on a straight-line basis over the term of the lease. Lease terms vary in length up to 20 years.

Payments to fishermen

The Corporation purchases fish at initial prices established by the Board of Directors and the cost of such purchases is included in the cost of sales. A guide used in the determination of the initial price is 80% of the projected total payments to fishermen (initial plus final), based upon forecasts prepared by the Corporation. Final payments, if any, to fishermen are determined by the Board after the end of the year, based on the results of operations for the year. The final payments are made in respect of products purchased during the year and therefore are charged to operations of the current year.

Foreign currency translation

Accounts receivable and payable denominated in foreign currency are translated into Canadian dollars at the year-end exchange rate. Transactions in foreign currency during the year are translated at the rate in effect at the time of the transaction. Translation gains and losses are included in interest expense.

Contributions

Contributions received in respect of property, plant and equipment are credited to the cost of the assets; those received in respect of the market research study program are credited to accounts payable and reduced as funds are expended, and those in respect of the plant productivity study are credited against cost of sales.

FRESHWATER FISH MARKETING CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
APRIL 30, 1986—*Concluded*

3. Contributions

The Corporation has received contributions toward the costs of property, plant and equipment, and other programs funded by a number of departments and agencies of the Federal and Provincial Governments, which are summarized as follows:

	Property plant and equipment	Market research development
	$	$
Government of Canada		
Department of Regional Industrial Expansion	127,151	
Department of External Affairs		70,931
Northwest Territories		
Special Agricultural Rural Developmental Act	37,159	
	164,310	70,931

4. Property, plant and equipment

	1986 Cost	1986 Accumulated depreciation and amortization	1986 Net	1985 Net
	$	$	$	$
Land	216,428		216,428	330,587
Buildings	5,210,711	1,976,546	3,234,165	3,420,923
Equipment	6,201,218	3,935,978	2,265,240	1,802,586
Fresh fish delivery tubs	1,477,841	871,689	606,152	552,069
Packer vessel	363,795	323,297	40,498	81,433
Leasehold improvements	417,158	348,357	68,801	81,095
Construction in progress	200,931		200,931	538,938
	14,088,082	7,455,867	6,632,215	6,807,631

5. Loans from Canada

These loans are secured by promissory notes and are made under Section 17 of the Act. At April 30, 1986 the outstanding amounts were as follows:

	Interest rate	Amount
	%	$
Working capital loans	9⅛	8,000,000
	9⅜	2,000,000
	9½	2,000,000
		12,000,000
Capital loans	10⅛	53,359
	10⅞	1,191,122
	14	408,108
	15⅜	450,000
	15⅝	550,000
		2,652,589
Less: current portion		2,652,589

Working capital loans are repayable on demand and capital loans are repaid in amounts at least equal to the sum of the annual provision for depreciation and amortization on property, plant and equipment and proceeds derived from disposals thereof.

6. Interest expense

	1986	1985
	$	$
Interest on loans from Canada		
Working capital	1,211,481	833,847
Capital	360,351	425,883
	1,571,832	1,259,730
Losses (gains) on foreign exchange	(50,657)	(146,928)
Interest income (net)	(71,327)	(10,491)
	1,449,848	1,102,311

7. Extraordinary item

In 1985 the Corporation experienced a fire loss at Simpson Island, N.W.T. The insurance proceeds exceeded the net book value of the property destroyed by $265,859.

8. Income taxes

The Corporation is eligible to deduct for tax purposes a 3% inventory allowance and a portion of its eligible capital cost allowance, and accordingly has no taxable income for the year. At April 30, 1986, the excess of undepreciated capital cost over net book value of property, plant and equipment amounted to $4,592,595 (1985—$4,446,049) which can be used to reduce future years' taxable income.

9. Remuneration to foreign agents

During the year, the Corporation paid an aggregate amount of $836,234 (1985—$668,228) to the following foreign sales agents: Frohman International, Juhl Brokerage Incorporation, Bill Bush & Associates, R.M. Sloan Co., Mile Hi Country Sales Co., Sahakian, Salm & Gordon, Benolken Brokerage Company, International Pacific Seafoods, Inc.,—U.S.; I. LeGrand H. Malo et Cie—France; Lejos Oy—Finland; AB.P. Jorgensen—Sweden; Rud Kanzow Gmbh & Co.—Germany.

10. Comparative figures

Certain figures for 1985 presented for comparison purposes have been reclassified to conform to the 1986 presentation.

SUMMARY PAGE

GREAT LAKES PILOTAGE AUTHORITY, LTD.

MANDATE

To establish, operate, maintain and administer in the interests of safety, an efficient pilotage service in designated Canadian waters in the Great Lakes area and in and around Ontario, and in designated waters in Manitoba, and in the St. Lawrence River, south of the St. Lambert Lock in Quebec.

BACKGROUND

Established in 1972, the Authority provides pilotage services and has the power to make regulations, subject to the approval of the Governor in Council, which establish compulsory pilotage areas; prescribe the ships/classes of ships that are subject to compulsory pilotage, the circumstances under which compulsory pilotage may be waived and pilotage tariffs; and which cover the licensing of pilots and issuance of pilotage certificates. Tariffs must be fair and reasonable and sufficient to permit the Authority to operate on a self-sustaining financial basis.

CORPORATION DATA

HEAD OFFICE	132 Second Street East Cornwall, Ontario K6H 5R9
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	Established pursuant to the *Pilotage Act* (S.C. 1970-71-72, C. 52) and incorporated under the *Canada Corporations Act* in May 1972 as a subsidiary of The St. Lawrence Seaway Authority.
CHIEF EXECUTIVE OFFICER AND CHAIRMAN	Richard G. Armstrong
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	1984	1983	1982
At the end of the year				
Total Assets	2.0	4.3	3.9	3.9
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	(5.2)	(2.2)	(1.9)	(1.4)
Cash from Canada for the year				
— budgetary	3.4	0.3	0.2	nil
— non-budgetary	nil	nil	nil	nil

GREAT LAKES PILOTAGE AUTHORITY, LTD.

AUDITOR'S REPORT

THE HONOURABLE DON MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

I have examined the balance sheet of Great Lakes Pilotage Authority, Ltd. as at December 31, 1985 and the statements of operations, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and regulations, the Pilotage Act and regulations, and the by-laws of the Authority.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
January 31, 1986

BALANCE SHEET AS AT DECEMBER 31, 1985

ASSETS	1985	1984
	$	$
Current		
Cash and short-term deposits	322,314	2,923,996
Accounts receivable	1,651,705	1,375,157
	1,974,019	4,299,153
Fixed, at cost		
Buildings	63,642	63,642
Furniture and equipment	73,663	64,757
	137,305	128,399
Less: accumulated depreciation	113,037	101,284
	24,268	27,115
	1,998,287	4,326,268

LIABILITIES	1985	1984
	$	$
Current		
Accounts payable and accrued liabilities	3,229,844	3,096,275
Accrued employee termination benefits	648,638	
	3,878,482	3,096,275
Long-term		
Accrued employee termination benefits	3,294,364	3,454,650
	7,172,846	6,550,925
SHAREHOLDER'S DEFICIENCY		
Capital stock		
Authorized—Unlimited		
Issued and fully paid—15 shares	1,500	1,500
Contributed capital	82,074	82,074
Deficit	(5,258,133)	(2,308,231)
	(5,174,559)	(2,224,657)
	1,998,287	4,326,268

Approved by the Board:

RICHARD ARMSTRONG
Director

LOUIS E. BÉLAND
Director

GREAT LAKES PILOTAGE AUTHORITY, LTD.—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1985

	1985	1984
	$	$
Revenues		
Pilotage charges	8,275,829	10,487,323
Miscellaneous despatching income	207,976	203,746
Interest and other income	99,211	160,419
	8,583,016	10,851,488
Expenses		
Pilots' salaries and benefits	8,574,418	8,487,629
Staff salaries and benefits	1,141,667	1,049,573
Transportation and travel	657,489	708,408
Employee termination benefits (Note 5)	627,514	414,654
Pilot boats	488,062	478,135
Communications	74,333	81,098
Professional and special services	73,706	50,714
Utilities, materials and supplies	36,267	22,366
Rentals	34,571	42,261
Purchased despatching services	33,776	43,128
Bad debts	25,559	14,280
Repairs and maintenance	15,868	15,542
Depreciation	12,752	12,869
	11,795,982	11,420,657
Loss for the year	3,212,966	569,169

STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1985

	1985	1984
	$	$
Balance, beginning of the year	2,308,231	1,988,854
Parliamentary appropriation (Note 3)	(263,064)	(249,792)
Loss for the year	3,212,966	569,169
Balance, end of the year	5,258,133	2,308,231

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1985

	1985	1984
	$	$
Funds provided		
Parliamentary appropriation	263,064	249,792
Funds applied		
Operations		
Loss for the year	3,212,966	569,169
Items not requiring an outlay of funds		
Employee termination benefits	160,286	(293,236)
Depreciation	(12,752)	(12,869)
	3,360,500	263,064
Additions to fixed assets	9,905	4,890
	3,370,405	267,954
Decrease in working capital	3,107,341	18,162
Working capital, beginning of the year	1,202,878	1,221,040
Working capital (deficiency), end of the year	(1,904,463)	1,202,878

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985

1. Authority and objectives

The Great Lakes Pilotage Authority was established on February 1, 1972 pursuant to the Pilotage Act, incorporated as a limited company on May 17, 1972, and is continued under the Canada Business Corporations Act. Pursuant to the Financial Administration Act, the Authority is deemed to be a parent Crown corporation listed in Schedule C Part I thereto. The majority of shares issued by the Authority are held by The St. Lawrence Seaway Authority, also a parent Crown corporation. The balance is held by the Authority's Chairman and six Directors appointed by the Governor in Council.

The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act provides that the pilotage tariffs shall be fair, reasonable and sufficient and together with any revenue from other sources, shall permit the Authority to operate on a self-sustaining financial basis.

The Authority is not subject to any income taxes.

2. Significant accounting policies

Parliamentary appropriations

When revenues are not sufficient to permit the Authority to operate on a self-sustaining financial basis, cash operating losses are recovered from parliamentary appropriations. These appropriations are recorded in the accounts when approved by Parliament and are reflected in the statement of deficit.

Parliamentary appropriations to finance capital expenditures are recorded as contributed capital.

Depreciation

Depreciation of fixed assets is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings	20 years
Furniture and equipment	5 to 10 years

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are expensed when paid, generally over the remaining years of service of the employees.

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees. The current liability reflects the accrued termination benefits of only those employees who have indicated their intention to terminate their employment within the coming year.

GREAT LAKES PILOTAGE AUTHORITY, LTD.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

3. Parliamentary appropriation

The parliamentary appropriation of $263,064 (1984—$249,792), reflected in the statement of deficit appeared in Supplementary Estimates "C" 1984-85 and represents funding of the 1984 cash operating loss.

On December 19, 1985, Treasury Board approved a temporary allotment of $2,750,000 from Treasury Board Vote 5 (Government Contingencies) to meet the Authority's immediate cash requirements for the first quarter of 1986. This approval was on the understanding that the allotment would be fully offset against any future appropriations relating to the 1985 cash operating loss. The Authority received $1,830,000 of this allotment on January 31. On February 6, 1986 Treasury Board approved the Authority's application, in the amount of $3,800,000, to include an item in Supplementary Estimates "C" 1985-86 for the 1985 cash operating loss. The actual loss for the year is $3,360,500.

4. Pension plan

Under provisions of the Pilotage Act, pilots who choose to become employees of the Authority are entitled to count service prior to becoming an employee as pensionable under the Public Service Superannuation Act. For pilots who have elected to purchase pension benefits with respect to past service, the Authority is required to match the employee contribution. The estimated unfunded past service pension contribution with respect to these employees was approximately $352,000 as of December 31, 1985 (1984 — $460,000) and will be funded over the remaining years of service of the pilots, or the terms of purchase, whichever is the lesser.

In 1985, the pension expense was $593,534 (1984 — $581,763) including $61,066 (1984 — $68,968) for past service contributions.

5. Cost reduction program

The Authority has undertaken a cost reduction program to assist it in operating on a self-sustaining financial basis.

During 1985, as part of this program, fifteen employees retired or were laid-off. As an incentive to those retiring prematurely, the Board of Directors approved an early retirement package. The cost of this incentive, amounting to $267,000, is included in employee termination benefits expense.

6. Commitments

The Authority has entered into a long-term lease for the rental of office space. The minimum annual rental payments which will be paid over the life of the lease are as follows:

	$
1986	32,140
1987	33,820
1988	35,500
1989	2,970
	104,430

In addition, the Authority has contracted two companies to provide marine transportation to pilots in the Welland Canal region for the 1986 navigation season. The estimated commitment with respect to these contracts is $265,000.

SUMMARY PAGE

HALIFAX PORT CORPORATION

MANDATE

Administration, management and control of the Halifax harbour and all works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Halifax Port Corporation was established on June 1, 1984, pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. Total cargo handled by the port in 1985 amounted to 14.0 million tonnes including 2 million tonnes of containerized cargo.

CORPORATION DATA

HEAD OFFICE	P.O. Box 336 Ocean Terminal Halifax, Nova Scotia B3J 2P6
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	June 1, 1984; letters patent of incorporation issued by the Minister of Transport pursuant to subsection 6.2(1) of the *Canada Ports Corporation Act*.
CHIEF EXECUTIVE OFFICER	David F. Bellefontaine
CHAIRMAN	Raymond V. Beck
AUDITOR	Doane, Raymond

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	**Seven months* to Dec. 31, 1984**
At the end of the year		
Total Assets	60.2	58.3
Obligations to the private sector	nil	nil
Obligations to Canada	25.6	25.6
Equity of Canada	23.9	22.2
Cash from Canada in the period		
— budgetary	(negl.)	0.6
— non-budgetary	nil	nil

* The Corporation began operations on June 1, 1984.

HALIFAX PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DONALD MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of the Halifax Port Corporation as at December 31, 1985, and the statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and Regulations, the Canada Ports Corporation Act and the by-laws of the Corporation.

Doane Raymond
Chartered Accountants

Halifax, Canada
February 7, 1986

BALANCE SHEET DECEMBER 31, 1985

ASSETS	1985	1984
	$	$
Current		
Cash	228,147	238,978
Investments (Note 3)	3,597,121	11,683,144
Accounts receivable	1,753,353	2,315,218
Due from Canada		238,502
Materials and supplies	84,491	85,416
	5,663,112	14,561,258
Investments (Note 3)	33,090	32,985
Amounts receivable	350,782	268,499
Fixed (Note 4)	54,172,543	43,397,035
	60,219,527	58,259,777

LIABILITIES	1985	1984
	$	$
Current		
Accounts payable and accrued liabilities	4,468,785	4,129,316
Grants in lieu of municipal taxes	163,809	184,634
Deferred revenues	523,308	541,879
	5,155,902	4,855,829
Accrued employee benefits	652,043	693,154
Loans from Canada (Note 5)	30,556,933	30,556,933
	36,364,878	36,105,916
EQUITY		
Contributed capital	72,136,346	72,136,346
Deficit	(48,281,697)	(49,982,485)
	23,854,649	22,153,861
	60,219,527	58,259,777

Commitments (Note 6)

On behalf of the Board:

RAYMOND V. BECK
Chairman

DAVID F. BELLEFONTAINE
General Manager and Chief Executive Officer

HALIFAX PORT CORPORATION—*Continued*

STATEMENT OF INCOME AND DEFICIT YEAR ENDED DECEMBER 31, 1985

(with comparative figures for the seven months ended December 31, 1984)

	1985	1984
	$	$
Revenue from operations	11,760,904	6,959,101
Operating and administrative expenses	8,224,153	5,129,113
Depreciation	1,519,654	906,107
Grants in lieu of municipal taxes	941,595	524,400
	10,685,402	6,559,620
Income from operations	1,075,502	399,481
Other income	625,286	718,247
Net income	1,700,788	1,117,728
Deficit, beginning of year	(49,982,485)	(51,100,213)
Deficit, end of year	(48,281,697)	(49,982,485)

STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1985

(with comparative figures for the seven months ended December 31, 1984)

	1985	1984
	$	$
Operating activities		
Net income	1,700,788	1,117,728
Depreciation	1,519,654	906,107
Other	(51,772)	(54,811)
Decrease in operating components of working capital	1,101,367	3,845,753
Cash provided by operating activities	4,270,037	5,814,777
Financing activities		
Capital grants	(10,263)	600,408
Loans from Canada	2,650,000	
Loans from Canada currently payable	(2,650,000)	
Cash provided by (applied to) financing activities	(10,263)	600,408
Investing activities		
Additions to fixed assets	(12,288,251)	(4,825,739)
Other	(68,377)	(13,200)
Cash required by investing activities	(12,356,628)	(4,838,939)
Increase (decrease) in cash and short-term investments	(8,096,854)	1,576,246
Cash and short-term investments, beginning of the year	11,922,122	10,345,876
Cash and short-term investments, end of year	3,825,268	11,922,122

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1985

1. In accordance with the Canada Ports Corporation Act, sections 6.1 and 6.2, a petition for the establishment of a local port corporation at the Port of Halifax was approved and the Halifax Port Corporation was established effective June 1, 1984.

   In accordance with the Canada Ports Corporation Act, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation—Port of Halifax to the Halifax Port Corporation.

2. Significant accounting policies

   (a) Investments

   The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

   (b) Fixed assets

   Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada from third parties are deducted from the cost of the related fixed assets.

   Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

   (c) Pension costs

   All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

   (d) Insurance

   Canada Ports Corporation assumes substantially all risks against fire and general perils, as well as worker compensation claims. Any costs arising from these risks are recorded in the accounts in the year they can be reasonably estimated.

   (e) Grants in lieu of municipal taxes

   The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

   (f) Employee benefits

   The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements, or in accordance with its policy.

3. Investments

	1985		1984	
	Amortized Cost	Face Value	Amortized Cost	Face Value
	$	$	$	$
Short-term	3,597,121	3,618,500	11,683,144	12,089,900
	Amortized Cost	Market Value	Amortized Cost	Market Value
Long-term	33,090	33,242	32,985	30,380

HALIFAX PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

4. Fixed assets

	1985				1984
	Depreciation rates	Cost	Accumulated depreciation	Net book value	Net book value
	%	$	$	$	$
Land		18,024,654		18,024,654	18,024,654
Dredging	2.5-6.7	2,596,947	2,174,717	422,230	449,107
Berthing structures	2.5-10	24,230,941	16,377,152	7,853,789	8,160,381
Buildings	2.5-10	18,691,154	11,463,401	7,227,753	6,131,417
Utilities	3.3-10	2,947,757	1,544,778	1,402,979	1,495,385
Roads and surfaces	2.5-10	5,578,487	2,879,548	2,698,939	2,827,257
Machinery and equipment	5-100	8,931,084	7,376,761	1,554,323	1,562,296
Office furniture and equipment	20	610,493	258,786	351,707	167,335
Projects under construction		14,636,169		14,636,169	4,579,203
		96,247,686	42,075,143	54,172,543	43,397,035

5. Loans from Canada

	1985	1984
	$	$
Non-interest bearing loans with indefinite due date	25,555,762	25,555,762
Accrued interest on loans	5,001,171	5,001,171
	30,556,933	30,556,933

The loans from Canada are unsecured.

6. Commitments

Funds have been committed on capital projects as at December 31, 1985 in the amount of $981,225. The full amount is expected to be spent during 1986.

7. Subsequent event

The Government of Canada has requested cash contributions from various Crown corporations. As part of this cash recovery exercise, there was a request for a contribution of $133,000,000 from the Ports Canada system made up of the Canada Ports Corporation and the six Local Port Corporations, of which $83,000,000 is payable by March 31, 1986 and $50,000,000 by June 30, 1986.

Of these amounts $1,920,000 has been assessed to Halifax Port Corporation representing its share of the $83,000,000 amount which is payable by March 31, 1986.

SUMMARY PAGE

HARBOURFRONT CORPORATION

MANDATE

Operate, manage, maintain and develop the Toronto Harbourfront lands for the benefit of the public.

BACKGROUND

Acquired by Canada in 1973, the corporation has developed public places on Toronto's waterfront and promotes in them multicultural and recreational activities which foster links with the neighborhood's residential and commercial areas.

CORPORATION DATA

HEAD OFFICE	Suite 500 410 Queen's Quay West Toronto, Ontario M5V 1A2
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Stewart McInnes, P.C., M.P.
DEPARTMENT	Public Works
DATE AND MEANS OF INCORPORATION	June 16, 1936, as Terminal Warehouses Ltd, under the Ontario *Companies Act*; July 14, 1978, as Harbourfront Corporation, under the *Business Corporations Act* of Ontario. Continued under the *Canada Business Corporations Act*, December 21, 1984.
CHIEF EXECUTIVE OFFICER	Howard E. Cohen
CHAIRMAN	Consiglio Di Nino
AUDITOR	Green and Cadsby

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85 (restated)	1983-84	1982-83
At the end of the period				
Total Assets	36.3	27.9	9.8	5.9
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	0.3	0.2	0.5	1.4
Cash from Canada in the period				
— budgetary	6.1	20.9	14.0	8.5
— non-budgetary	nil	nil	nil	nil

HARBOURFRONT CORPORATION

AUDITOR'S REPORT

TO THE HONOURABLE ROCH LASALLE, P.C., M.P.
MINISTER OF PUBLIC WORKS

We have examined the balance sheet of Harbourfront Corporation as at March 31, 1986 and the statements of income, retained equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of recording fixed assets referred to in Note 4, on a basis consistent with that of the preceding year.

Further, we have examined the transactions that came to our notice in the course of the above mentioned examination of the financial statements of Harbourfront Corporation for the year ended March 31, 1986, to determine whether they were in accordance with Part XII of the Financial Administration Act, the regulations, the charter and by-laws of the corporation and the seven year management agreement dated June 13, 1980 as subsequently amended. In our opinion, these transactions were, in all significant respects, in compliance with the authorities specified.

Green and Cadsby
Chartered Accountants

Toronto, Canada
June 18, 1986

BALANCE SHEET MARCH 31, 1986

ASSETS	Note reference	1986	1985
	13	$	$ Restated
Cash and term deposits		318,352	5,912,413
Government of Canada—Receivable	2	344,733	6,539,574
Receivables and other assets	5	3,190,672	1,970,847
Due under development agreements	7	23,451,292	9,597,878
Deposit with Receiver General	2,6	8,773,245	3,841,370
Fixed assets	8	230,717	1
		36,309,011	27,862,083

LIABILITIES	Note reference	1986	1985
	13	$	$ Restated
Accounts payable and accrued liabilities		2,206,904	4,263,073
Unearned revenue from development agreements	9	31,034,821	15,894,123
Deferred development contributions	10	1,687,414	6,472,518
Other deferred revenues		1,044,361	989,175
		35,973,500	27,618,889
SHAREHOLDER'S EQUITY			
Capital			
Authorized			
500,000—Common shares			
Issued			
215,500—Common shares		1	1
Retained Equity		335,510	243,193
		335,511	243,194
		36,309,011	27,862,083

See accompanying notes

On behalf of the Board:

CONSIGLIO DI NINO
Director

A. BRAM APPEL
Director

HARBOURFRONT CORPORATION—*Continued*

STATEMENT OF RETAINED EQUITY FOR THE YEAR ENDED MARCH 31, 1986

	Note reference	1986	1985
	13	$	$ Restated
Retained earnings at beginning of year		243,193	473,651
Net income (loss) for the year		92,317	(230,458)
Transfer to restricted surplus	2,3	(1,189,716)	
Retained earnings (deficit) at end of year		(854,206)	243,193
Restricted surplus at beginning of year			
Transfer from retained earnings	2,3	1,189,716	
Restricted surplus at end of year		1,189,716	
Retained equity at beginning of year		243,193	473,651
Retained equity at end of year	3	335,510	243,193

See accompanying notes

STATEMENT OF INCOME FOR THE YEAR ENDED MARCH 31, 1986

	Note reference	1986	1985
	13	$	$ Restated
Operations			
Income			
Government of Canada—Contribution	2	205,700	347,300
Rental from revenue producing property		1,563,040	1,933,916
Parking, concessions and other income		3,834,201	3,746,560
Events, admissions and sponsorships		2,237,782	2,002,687
Interest earned under Harbourfront Capital Account	2	557,062	25,574
Interest and fees earned under development agreements		1,582,515	1,621,746
		9,980,300	9,677,783
Expenses			
Personnel	11	4,443,437	4,016,722
Property and operations		1,442,207	1,260,474
Events production		2,414,108	2,288,202
General and administration		2,711,649	2,342,843
Depreciation		66,298	
		11,077,699	9,908,241
Loss from operations		(1,097,399)	(230,458)
Development			
Income			
Contributions applied	10	11,995,955	18,294,548
Interest		88,838	266,098
		12,084,793	18,560,646
Income from sale of development rights	2	1,168,000	
Income from capitalized leases	2	21,716	
		13,274,509	18,560,646
Expenses			
Site improvements		11,135,816	15,687,306
Land acquisition		948,977	2,873,340
		12,084,793	18,560,646
Income from development		1,189,716	
Net income (loss) for the year		92,317	(230,458)

See accompanying notes

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Operating and Development Activities		
Cash provided from		
Net income (loss) for the year	92,317	(230,458)
Expenses not requiring cash outlay		
Depreciation	66,298	
	158,615	(230,458)
Cash increased by		
Deferred revenue from development agreements	15,140,698	6,819,500
Receivable from Government of Canada	6,514,000	
Deferred revenue	55,186	460,188
Development contributions		2,270,152
Accounts payable and accrued liabilities		2,453,580
Receivables and other assets		747,874
	21,709,884	12,751,294
Cash reduced by		
Due under development agreements	(13,853,414)	(3,284,625)
Deposit with Receiver General	(4,931,875)	(3,841,370)
Development contributions	(4,785,104)	
Accounts payable and accrued liabilities	(2,056,169)	
Receivables and other assets	(1,538,984)	
Receivable from Government of Canada		(6,514,000)
	(27,165,546)	(13,639,995)
Cash reduced by operating and development activities	(5,297,047)	(1,119,159)
Investing Activities		
Land acquired from Crown	(1)	
Operating fixed assets	(297,013)	
	(297,014)	
Decrease in cash	(5,594,061)	(1,119,159)
Cash and term deposits at beginning of the year	5,912,413	7,031,572
Cash and term deposits at end of the year	318,352	5,912,413

See accompanying notes

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 1986

1. General

The Company, incorporated under the Laws of Ontario, was continued under Section 181 of the Canada Business Corporations Act by Certificate of Continuance dated December 21, 1984.

The Company is a Crown corporation listed under Part I of Schedule C of the Financial Administration Act. Share capital is held by Her Majesty the Queen in Right of Canada as represented by the Minister of Public Works.

The Company is exempt from Corporation Income Taxes under Section 149(1)(d) of the Income Tax Act.

The Company owns shares in a subsidiary company, 630370 Ontario Limited, which is inactive as at March 31, 1986.

2. Related parties transactions

Pursuant to a seven year agreement dated June 13, 1980 as subsequently amended, Her Majesty the Queen in Right of Canada, has granted the Company the right to operate, manage, maintain and develop certain premises situated on the Toronto harbourfront for commercial and residential purposes, including the leasing of space and to initiate, conduct or sponsor on the premises cultural, recreational and educational programmes for the benefit of the public.

Funds received on account of development rights and capitalized land leases are remitted to the Receiver General for deposit in the Harbourfront Capital Account, an interest bearing trust account within the Consolidated Revenue Fund of the Government of Canada.

HARBOURFRONT CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1986—*Continued*

The Corporation may, with the approval of the Governor in Council, upon recommendation of the Treasury Board, withdraw amounts of principal remitted to the Harbourfront Capital Account for purposes consistent with the development and financial objectives of the Corporation.

The following summarizes related party transactions for the year.

Government of Canada contributions:

	1986	1985
	$	$
Operating contribution	205,700	347,300
Development contribution	5,886,300	20,564,700
	6,092,000	20,912,000
Interest received and receivable from the Harbourfront Capital Account	557,062	25,574
Government of Canada receivable	344,733	6,539,574

Government of Canada receivable in 1986 represents accrued interest on the Harbourfront Capital Account and in 1985 represents contributions receivable of $6,514,000 and accrued interest on the Harbourfront Capital Account of $25,574.

3. Accounting policies

Land

The land being developed by Harbourfront is owned by Her Majesty the Queen in Right of Canada except for certain designated portions that have been conveyed to the Company for nominal consideration to facilitate certain redevelopment agreements. Land, the acquisitions of which are funded by contributions from the Government of Canada, is owned by the Government of Canada, and accordingly, is recorded as expenditures. Land transferred to the Company from the Government of Canada is transferred and recorded at $1.

Buildings and site improvements

The Company records the costs of maintaining and improving the site and buildings thereon as expenditures in the year incurred, except for additions to land conveyed to and retained by the Company which are capitalized.

Operating fixed assets

Operating assets, consisting of machinery, equipment and office furniture, are recorded at cost and depreciated over their useful lives. Assets reflected in the financial statements include additions, including acquisitions through capital leases, if any, after March 31, 1985.

Recognition of revenues

Development rights and leases

Upon closing of development agreements, the Company records all amounts received and receivable which are reasonably determinable as unearned revenue. Sales of air rights are recognized and net income is recorded upon transfer of title of said air rights and registration of the condominium development. Capitalized land leases are recognized on a straight line basis over the lease term.

Interest earned by the Corporation from the monies held in the Harbourfront Capital account and interest earned on balances due under development agreements are part of the operating revenues of the Corporation.

Government contributions

Contributions from the Government of Canada are recognized at the time they are authorized as payable to the Company.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary.

Retained equity

Retained equity consists of retained earnings and restricted surplus. Net income recognized under development agreements and capitalized land leases, is transferred to the restricted surplus account to reflect the restriction set out in Note 2. Transfers out of the restricted surplus account to retained earnings are limited to such amounts as are approved by the Governor in Council, upon recommendation of the Treasury Board.

4. Change in accounting policies

Certain operating fixed assets were originally transferred from the Government of Canada to the Company by Order in Council for $1. Additions to March 31, 1985 were recorded as expenditures and equipment capital leases were treated as operating leases.

The application of the new accounting policy for recording operating assets has resulted in assets of $297,014 being capitalized on which depreciation of $66,298 has been provided. The Company did not enter into capital leases during the current fiscal year.

This change in policy has not been applied retroactively since the financial data relating to those operating fixed assets transferred by the Crown and other acquisitions up to March 31, 1985 are not reasonably determinable.

5. Receivables and other assets

	1986	1985
	$	$
Accounts receivable	478,632	870,007
Interest under development agreements	1,277,016	262,966
Interest, other	86,063	96,510
Development fees	500,000	
Participating income receivable	124,355	80,874
Programming grants receivable	95,050	37,683
Prepaid expenses and deposits	629,556	622,807
	3,190,672	1,970,847

6. Deposit with Receiver General

As of March 31, 1986, the Corporation had received and paid $8,773,245 into the Harbourfront Capital Account. Balances due upon the registration of various condominium developments amount to $23,451,292 and will be remitted to the Harbourfront Capital Account on receipt.

7. Due under development agreements

	Due within one year	Due after one year	Total 1986	Total 1985
	$	$	$	$
Amounts due, interest bearing		4,833,253	4,833,253	4,833,253
Amounts due, non-interest bearing	13,853,414	4,764,625	18,618,039	4,764,625
	13,853,414	9,597,878	23,451,292	9,597,878

HARBOURFRONT CORPORATION—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

8. Fixed assets

Fixed assets consist of

	Cost	Accumulated depreciation	Net 1986	Net 1985
	$	$	$	$
Land	1		1	
Operating fixed assets transferred from Crown	1		1	1
Operating fixed assets acquired in year	297,013	66,298	230,715	
	297,015	66,298	230,717	1

9. Unearned revenue from development agreements

	1986	1985
	$	$
Balance at beginning of year	15,894,123	
Amounts received	2,477,000	6,296,245
Amounts receivable	13,853,414	9,597,878
	32,224,537	15,894,123
Earned in year	1,189,716	
Balance at end of year	31,034,821	15,894,123

10. Deferred development contributions

	1986	1985
	$	$
Deferred contributions at beginning of year	6,472,518	4,202,366
Contributions during year		
Government of Canada (Note 2)	5,886,300	20,564,700
Allowances under development agreements	1,324,551	
	13,683,369	24,767,066
Contributions applied in year	11,995,955	18,294,548
Deferred contributions at end of year	1,687,414	6,472,518

The deferred contributions at beginning of 1985 and 1986 were represented by contributions from the Government of Canada.

11. Personnel

Personnel costs were incurred in each operational area as follows:

	1986	1985
	$	$
Property and operations	1,216,644	1,093,464
Events production	1,891,977	1,678,982
General and administration	955,783	935,921
Planning and development	379,033	308,355
	4,443,437	4,016,722

12. Commitments and contingencies

As at March 31, 1986, contractual obligations and capital commitments to various site capital improvements amounting to $7,200,000 will be funded from the deferred development contributions and from withdrawals from the Harbourfront Capital Account.

The Company is the defendant in certain litigation matters totalling approximately $275,000. The Company has denied liability in these actions and in some instances has served counterclaims. In the opinion of management, based in part upon discussions with counsel, these actions will be resolved satisfactorily and will not have a material adverse effect on the Company's financial position.

The contractual principal repayments under equipment leases entered into prior to April 1, 1985 are as follows:

Fiscal year	$
1987	119,220
1988	102,798
1989	38,089
1990	25,891

13. Comparative figures

Contributions received in excess of development expenses, previously carried forward as Special Recovery Capital Projects Programme Fund and Capital Improvements Fund, are now classified as deferred revenue.

Funds received under development agreements and remitted to the Receiver General, previously carried forward as the Harbourfront Capital Account Fund, are now recorded as unearned revenue. As at March 31, 1985, $2,454,875 was due to the Harbourfront Capital Account Fund.

Certain other 1985 comparative figures have been reclassified in order to conform with the financial statement presentation adopted for 1986.

14. Cumulative contributions by the Government of Canada

The following historical cost information in millions of dollars has been supplied by the Department of Public Works:

	Fiscal 1972 to 1980	Fiscal 1981 to 1986	Total
	$	$	$
Site acquisition	54.4		54.4
Operating and capital expenditures	21.5		21.5
Operating contributions		8.5	8.5
Development and land acquisition contributions		50.3	50.3
	75.9	58.8	134.7

Funds contributed subsequent to fiscal 1980 represent expenditures pursuant to the Management Agreement referred to in Note 2.

SUMMARY PAGE

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT

MANDATE

To initiate, encourage and support cooperation between Canada and developing countries in the field of ocean resource development.

BACKGROUND

ICOD was established by statute as a parent Crown corporation in February 1985. It complements the work of CIDA, the International Development Research Centre, and other development assistance organizations. It is seen as an important new dimension in Canada's efforts to assist less fortunate nations through its long experience and expertise in marine resource management.

CORPORATION DATA

HEAD OFFICE	5670 Spring Garden Road 9th Floor Halifax, Nova Scotia B3J 1H6
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Right Honourable Joe Clark, P.C., M.P.
DEPARTMENT	External Affairs
DATE AND MEANS OF INCORPORATION	By S.C. 1984-85 C. 6, s.24; proclaimed February 27, 1985.
CHIEF EXECUTIVE OFFICER	G.C. Vernon
CHAIRMAN	Elisabeth Mann Borgese
AUDITOR	Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85
At the end of the period		
Total Assets	0.1	negl.
Obligations to the private sector	nil	nil
Obligations to Canada	nil	nil
Equity of Canada	negl.	nil
Cash from Canada in the period		
— budgetary	1.1	0.8
— non-budgetary	nil	nil

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT

AUDITOR'S REPORT

THE RIGHT HONOURABLE CHARLES JOSEPH CLARK, P.C., M.P.
SECRETARY OF STATE FOR EXTERNAL AFFAIRS

I have examined the balance sheet of the International Centre for Ocean Development as at March 31, 1986 and the statements of operations, equity, contributed surplus and changes in financial position for the period February 27, 1985 to March 31, 1986. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Centre as at March 31, 1986 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles.

Further, in my opinion, the transactions of the Centre that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the International Centre for Ocean Development Act and regulations and the by-laws of the Centre.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 7, 1986

BALANCE SHEET AS AT MARCH 31

ASSETS	1986	LIABILITIES	1986
	$		$
Current		Current	
Cash	74,669	Accounts payable and accrued liabilities	45,408
Accounts receivable	5,070	EQUITY	
		Contributed surplus	52,790
		Deficit	(18,459)
			34,331
	79,739		79,739

Approved by the Board:

ELIZABETH MANN BORGESE
Director

J. VANDERMEULEN
Director

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT—*Continued*

STATEMENT OF EQUITY FOR THE PERIOD FEBRUARY 27, 1985 TO MARCH 31, 1986

	1986
	$
Parliamentary appropriations	1,125,000
Deduct:	
Cost of operations for the period	1,143,459
Deficit, at end of the period	18,459

STATEMENT OF CONTRIBUTED SURPLUS FOR THE PERIOD FEBRUARY 27, 1985 TO MARCH 31, 1986

	1986
	$
Net fixed assets contributed by predecessor non-government organization—International Centre for Ocean Development	52,790

STATEMENT OF OPERATIONS FOR THE PERIOD FEBRUARY 27, 1985 TO MARCH 31, 1986

	1986
	$
Project expenditures	
Grants and contributions	353,769
Travel	30,830
Contract and professional services	22,520
Reference material and periodicals	19,008
Advisory committee meetings	3,438
Course material	1,803
	431,368
Administrative expenditures	
Employee and contract staff salaries and benefits	298,769
Office equipment and leasehold improvements	118,798
Professional services	110,155
Accommodation costs	74,508
Travel and entertainment	59,883
Directors' honoraria, travel and meetings	53,109
Office supplies and services	43,992
Communications	30,313
	789,527
Deduct:	
Revenue	
Interest income	75,434
Rentals	2,002
	77,436
Cost of operations for the period	1,143,459

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE PERIOD FEBRUARY 27, 1985 TO MARCH 31, 1986

	1986
	$
Financing activities	
Parliamentary appropriations	3,300,000
Refund of parliamentary appropriations	(2,175,000)
	1,125,000
Operating activities	
Cash used for operations	
Cost of operations for the period	(1,143,459)
Adjustment for non-cash items	
Net fixed asset contributions	52,790
	(1,090,669)
Increase in working capital items other than cash	40,338
	(1,050,331)
Cash, at end of the period	74,669

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1986

1. Authority and objectives

The International Centre for Ocean Development was established by the International Centre for Ocean Development Act in 1985 as a Crown corporation without share capital, named in Schedule C, Part I to the Financial Administration Act. The Centre is dependant on the Government of Canada for operating appropriations.

The objectives of the Centre are to initiate, encourage and support cooperation between Canada and developing countries in the field of ocean resource development by:

(a) initiating and supporting programs in developing countries for the improved management and utilization of ocean resources, particularly as a source of food;

(b) supporting the development of indigenous expertise and institutions in developing countries in order to increase the capacity of developing countries in integrated ocean use management;

(c) enlisting the expertise of people and institutions in Canada, developing countries and elsewhere;

(d) developing and sponsoring the collection and dissemination of information relating to ocean resource development;

(e) developing and sponsoring training programs, technical assistance and advisory services relating to ocean resource development; and

(f) supporting research relating to ocean resource development.

2. Significant accounting policies

The financial statements reflect the following policies:

(a) Capital expenditures

Purchases of equipment, office furniture, and costs of leasehold improvements are expensed in the year of acquisition.

(b) Parliamentary appropriations

Parliamentary appropriations are recorded in the Statement of Equity for the year to which they apply.

(c) Project expenditures

The Centre enters into agreements with third parties to undertake projects. Project expenditures are charged to operations when disbursed and as they become due under the terms of the contractual agreement.

(d) Pension plan

Employees of the Centre are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required equally from the employees and the Centre. These contributions represent the total liability of the Centre and are recognized in the accounts on a current basis.

3. Contributed surplus

Contributed surplus represents the net book value of assets contributed to the Centre on December 19, 1985 by the predecessor, non-government organization, International Centre for Ocean Development. In accordance with the Centre's accounting policy, this amount has been charged to expense.

4. Income taxes

The Centre is exempt from income taxes.

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

5. Operating leases

The Centre has entered into various operating lease arrangements for office premises and equipment. The future minimum lease payments are as follows:

	$
Year ending March 31	
1987	142,300
1988	143,500
1989	159,500
1990	170,000
1991	
	615,300

6. Contractual commitments—Project expenditures

The Centre is committed to project expenditures totalling $1,926,500 during the next five years subject to compliance by recipients with the terms of their agreements.

SUMMARY PAGE

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE

MANDATE

To initiate, encourage, support and conduct research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical and other knowledge to the economic and social advancement of those regions.

BACKGROUND

IDRC was created to help resolve, through research carried out by Third World scientists, the problems of poverty in the developing countries. To this end, it has established the following main program areas: Agriculture, Food and Nutrition Sciences; Health Sciences; Information Sciences; Social Sciences; and through collaborative research, the Earth Sciences and Technologies for local enterprises.

CORPORATION DATA

HEAD OFFICE	60 Queen Street Ottawa, Ontario K1G 3H9
STATUS	— not an agent of Her Majesty — exempt from provisions of Divisions I to IV of Part XII of the *Financial Administration Act*
APPROPRIATE MINISTER	The Right Honourable Joe Clark, P.C., M.P.
DEPARTMENT	External Affairs
DATE AND MEANS OF INCORPORATION	1970, by *The International Development Research Centre Act*, (R.S.C., 1970, C.21-1st Supp)
CHIEF EXECUTIVE OFFICER	Ivan L. Head
CHAIRMAN	Janet M. Wardlaw
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	**1984-85 (restated)**	**1983-84**	**1982-83**
At the end of the period				
Total Assets	16.7	20.3	21.7	19.0
Obligations to the private sector	nil	0.3	0.4	negl.
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	1.1	10.9	7.9	8.1
Cash from Canada in the period				
— budgetary	82.0*	81.0	67.4	59.2
— non-budgetary	nil	nil	nil	nil

* Net of $4.0 million repaid to Canada.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE

AUDITOR'S REPORT

TO THE INTERNATIONAL DEVELOPMENT RESEARCH CENTRE
AND
THE RIGHT HONOURABLE CHARLES JOSEPH CLARK, P.C., M.P.
SECRETARY OF STATE FOR EXTERNAL AFFAIRS

I have examined the balance sheet of the International Development Research Centre as at March 31, 1986 and the statements of operations, equity of Canada and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Centre as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the application of the accounting policy relating to method of accounting for project payments as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 12, 1986

BALANCE SHEET AS AT MARCH 31, 1986

ASSETS	1986	1985
	$	$
Current		
Cash	462,316	467,781
Investments (Note 4)	11,463,218	14,768,861
Accounts receivable	461,015	444,586
Prepaid expenses	745,523	827,819
	13,132,072	16,509,047
Recoverable deposits	455,909	435,329
Property and equipment (Note 5)	3,108,716	3,350,611
	16,696,697	20,294,987

LIABILITIES	1986	1985
	$	$
Current		
Accounts payable and accrued liabilities (Note 6)	8,446,521	6,536,078
Due to Government of Canada (Note 7)	4,000,000	
Funds provided for contract research	450,027	268,100
Deferred revenue (Note 8)	241,110	
Obligation under capital lease		69,903
	13,137,658	6,874,081
Long-term		
Accrued employee separation benefits	2,436,272	2,199,784
Obligation under capital lease (Note 9)		275,331
	2,436,272	2,475,115
	15,573,930	9,349,196
EQUITY		
Equity of Canada	1,122,767	10,945,791
	16,696,697	20,294,987

Approved:

VERN JORSSEN
Comptroller General and Treasurer

IVAN HEAD
President

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Expenditure		
Development research		
Project grants	47,057,173	43,152,294
Centre projects	6,474,598	6,192,636
	53,531,771	49,344,930
Research related activities		
Project development and support	3,794,838	4,543,729
Information dissemination	1,925,219	1,975,359
Development research library	1,283,138	1,212,198
	7,003,195	7,731,286
Research operational support		
Technical support	12,012,502	10,675,987
Regional and liaison offices	4,946,549	4,456,076
Division management	4,223,966	3,997,117
	21,183,017	19,129,180
Contract research	1,053,126	494,900
Total research and support expenditure (Schedule 1)	82,771,109	76,700,296
General management expenditure (Schedule 2)	8,714,899	8,303,128
	91,486,008	85,003,424
Revenue		
Grant from Parliament of Canada	86,000,000	81,000,000
Investment and other income	1,880,968	3,164,482
Contract research	1,053,126	494,900
CIDA contribution (Note 8)	728,890	
	89,662,984	84,659,382
Excess of expenditure over revenue	(1,823,024)	(344,042)

STATEMENT OF EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Balance at the beginning of the year		
As previously reported	8,028,622	7,918,711
Changes in application of accounting policy relating to project grant expenditure (Note 3)	2,917,169	3,371,122
As restated	10,945,791	11,289,833
Reimbursement of equity to Government of Canada (Note 7)	(8,000,000)	
Excess of expenditure over revenue	(1,823,024)	(344,042)
	(9,823,024)	(344,042)
Balance at the end of the year	1,122,767	10,945,791

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Operating activities		
Cash provided by (used for) operations		
Excess of expenditure over revenue	(1,823,024)	(344,042)
Items not affecting funds		
Depreciation and amortization	1,035,657	875,896
Provision for employee separation benefits	500,722	250,893
Gain on disposal of property and equipment	(4,042)	(52,333)
Write-off of systems software		358,378
	(290,687)	1,088,792
Accounts receivable	(16,429)	240,671
Prepaid expenses	82,296	(166,575)
Recoverable deposits	(20,580)	(252,523)
Accounts payable and accrued liabilities	1,910,443	(829,263)
Deferred revenue	241,110	
Payment of employee separation benefits	(264,234)	(306,568)
Contract research	181,927	(119,885)
	1,823,846	(345,351)
Financing activities		
Reduction of equity	(8,000,000)	
Due to Government of Canada	4,000,000	
Reduction of obligation under capital lease	(345,234)	(58,965)
	(4,345,234)	(58,965)
Investing activities		
Additions to property and equipment	(835,100)	(1,114,735)
Proceeds on disposal of property and equipment	45,380	83,820
	(789,720)	(1,030,915)
Decrease in funds	(3,311,108)	(1,435,231)
Cash, beginning of year	15,236,642	16,671,873
Cash, end of year	11,925,534	15,236,642
Represented by		
Cash	462,316	467,781
Investments	11,463,218	14,768,861
	11,925,534	15,236,642

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Continued*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1986

1. Authority and objective

The International Development Research Centre, a Corporation without share capital, was established in 1970 by the Parliament of Canada through the International Development Research Centre Act. The annual grant received from the Parliament of Canada is pursuant to External Affairs Votes 70 and 60 for the years ended March 31, 1986 and 1985 respectively.

The objective of the Centre is to initiate, encourage, support, and conduct research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical, and other knowledge to the economic and social advancement of those regions.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

Property and equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives. Leasehold improvements are amortized over the terms of the respective leases. The methods and rates used to provide for the depreciation and amortization of property and equipment are as follows:

	Method	Rate (%)
Computer hardware	Straight line	20
Leasehold improvements	Straight line	6⅔-50
Office furniture and equipment	Diminishing balance	20
Vehicles	Diminishing balance	30
Telephone system	Straight line	20

Expenditure

Expenditure is recorded on an accrual basis except for contract research expenditure, which is charged to operations when disbursed.

Recognition of revenue

Revenue in respect of contract research and of the contribution from the Canadian International Development Agency (CIDA) is recognized at the time that the related project expenditure is incurred. Contract research and CIDA contribution funds received in excess of expenditure are included in current liabilities.

Pension costs

Employees of the Centre are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from the employees and the Centre. These contributions represent the total liability of the Centre and are recognized in the accounts on a current basis.

Income taxes

The Centre is exempt from any liability for income taxes.

Foreign currency translation

Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange in effect at year-end. Non monetary assets are translated at rates prevailing at the respective transaction dates. Foreign-currency transactions are translated into Canadian dollars by the use of an average exchange rate that closely approximates the rate in effect at the transaction date. Exchange gains and losses are included in operations for the current period.

3. Change in application of accounting policy

During the year, the Centre applied retroactively the following change to the application of its accounting policy relating to project payments. Formerly, project payments were accrued on the basis of the schedule of reports and payments. Now, the Centre will no longer accrue project payments that become due upon receipt of progress and financial reports until these reports have been received.

As a result of this change, the accrued liabilities for 1986 and 1985 have been decreased by $4,141,040 and $2,917,169 respectively.

Had this policy change not been made, the excess of expenditure over revenue for the current year would have increased by $1,223,871. For the year ended March 31, 1985, the expenditure was increased by $453,953 resulting in an excess of expenditure over revenue of $344,042. A retroactive adjustment was made to Equity of Canada at April 1, 1984 of $3,371,122 representing the reversal of accruals in prior years.

4. Investments

Investments consist of short-term notes and deposits and treasury bills held with:

	1986	1985
	$	$
Canadian chartered banks	3,065,992	12,194,159
Governments and governmental enterprises	1,279,354	1,084,412
Commercial enterprises	1,688,132	990,290
Trust and mortgage companies	5,429,740	500,000
	11,463,218	14,768,861

5. Property and equipment

	1986			1985
	Cost	Accumulated depreciation and amortization	Net	Net
	$	$	$	$
Computer hardware	2,170,952	966,232	1,204,720	1,084,550
Leasehold improvements	1,843,929	1,376,982	466,947	702,951
Office furniture and equipment	1,611,945	869,870	742,075	764,398
Vehicles	754,598	368,750	385,848	413,504
Telephone system	491,271	182,145	309,126	385,208
	6,872,695	3,763,979	3,108,716	3,350,611

Depreciation and amortization for the year ended March 31, 1986 amounted to $1,035,657 ($875,896 for 1985).

6. Accounts payable and accrued liabilities

	1986	1985
	$	$
Accrued liabilities—Projects	4,765,749	3,558,604
Accrued annual and other leave benefits	1,302,879	1,287,894
Other	2,377,893	1,689,580
	8,446,521	6,536,078

7. Reimbursement of equity to Government of Canada

The Budget Papers tabled in the House of Commons by the Minister of Finance on May 23, 1985 provided for the recovery of $15,000,000 from the Centre in 1985-86. The Centre has negotiated that it will remit a total of $8,000,000: $4,000,000 in this fiscal year and $4,000,000 on April 1, 1986.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Continued*

NOTES TO FINANCIAL STATEMENTS AS AT MARCH 31, 1986—*Concluded*

8. Contribution from the Canadian International Development Agency

On March 29, 1985, the Centre executed an agreement in respect of a contribution of up to $4,764,690 to be provided by CIDA for a development-research project.

	$
Contribution received during the year	1,000,000
Project expenditure	728,890
Administration charges by the Centre	30,000
	758,890
Excess of funds received over expenditures and administration charges	241,110
Funds available at the beginning of the year	
Funds available at the end of the year	241,110

9. Capital lease

In December 1985, the Centre exercised its option of buying back the telephone system thereby eliminating the obligation under capital lease. During the year, the interest implicit in the lease amounted to $30,152 ($49,671 in 1985).

10. Operating leases

The Centre has entered into various lease arrangements for office premises, equipment, and staff accommodation, in Canada and in various countries. The total annual payments under such lease arrangements will be as follows:

	$
Year ending March 31	
1987	2,962,507
1988	1,581,466
1989	79,517
	4,623,490

The Centre has made an offer to lease a new building for 10 years and 10 months starting in late 1986. The proposed terms call for an annual rent of approximately $2,740,000 starting with a rent-free period of 13 months.

11. Contractual commitments—Project grants and project development

The Centre is committed to make payments totaling up to $85,000,000 during the next 4 years subject to funds being provided by Parliament and subject to compliance by recipients with the terms of project agreements. The Centre has also submitted formal grant offers to prospective recipients totaling $22,600,000 and is awaiting acceptance of these offers.

The Centre is further committed to make payments of up to $3,800,000 during the next 4 years, subject to funds being provided by CIDA and subject to compliance by the recipient with the terms of the project agreement.

12. Contingencies

The Centre is a defendant in two actions for damages and costs allegedly sustained by the plaintiffs. Management and counsel are of the opinion that the Centre has defenses against these claims and accordingly no provision has been made in the financial statements in respect of them. The claims are not significant to the operations of the Centre.

13. Comparative figures

The 1985 comparative figures have been reclassified to conform to the statement presentation adopted in 1986.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Concluded*

SCHEDULE OF RESEARCH AND SUPPORT EXPENDITURE FOR THE YEAR ENDED MARCH 31, 1986

SCHEDULE 1

	1986					1985
	Development research	Research related activities	Research operational support	Contract research	Total	Total
	$	$	$	$	$	$
Programs						
Agriculture, Food and Nutrition Sciences	18,422,765	515,709	4,109,404	354,026	23,401,904	20,737,008
Social Sciences	10,047,007	783,427	3,417,172	197,455	14,445,061	15,552,326
Information Sciences	6,684,589	526,467	2,386,143	15,996	9,613,195	9,525,723
Health Sciences	7,592,756	218,810	2,115,698	99,653	10,026,917	9,043,506
Fellowships and Awards	4,933,132	128,335	793,600		5,855,067	4,674,914
Cooperative Programs	3,908,673	391,034	1,160,165		5,459,872	3,832,702
Program related activities						
Regional, Liaison Offices and Coordination Unit		635,361	4,996,824		5,632,185	5,187,562
Information Dissemination	441,013	1,925,219	1,639,570		4,005,802	3,886,305
Special Program Activities	1,501,836	360,945		381,926	2,244,707	2,060,413
Development-Reserach Library		1,283,138			1,283,138	1,212,198
External Liaison and Relations		234,750	564,441	4,070	803,261	987,639
	53,531,771	7,003,195	21,183,017	1,053,126	82,771,109	76,700,296

SCHEDULE OF GENERAL MANAGEMENT EXPENDITURE FOR THE YEAR ENDED MARCH 31, 1986

SCHEDULE 2

	1986	1985
	$	$
Salaries and benefits	6,067,589	5,448,313
Rent and accommodation	619,479	615,341
Office and sundry	500,317	473,652
Travel and relocation	457,798	457,114
Depreciation and amortization	389,500	692,153
Governors' meetings	277,872	246,279
Professional and special services	198,001	198,149
Telecommunications	159,676	111,792
Interest	30,152	49,671
Insurance	14,515	10,664
	8,714,899	8,303,128

SUMMARY PAGE

LAURENTIAN PILOTAGE AUTHORITY

MANDATE

To establish, operate, maintain and administer in the interests of safety an efficient pilotage service in the St. Lawrence River between Les Escoumins and the north end of the St. Lambert Lock, in the Saguenay River and in the Bay of Chaleur.

BACKGROUND

Established in 1972, the Authority provides pilotage services and has the power to make regulations, subject to the approval of the Governor in Council, which establish compulsory pilotage areas; prescribe the ships/classes of ships that are subject to compulsory pilotage, the circumstances under which compulsory pilotage may be waived and pilotage tariffs; and which cover the licensing of pilots and issuance of pilotage certificates. Tariffs must be fair and reasonable and sufficient to permit the Authority to operate on a self-sustaining financial basis.

CORPORATION DATA

HEAD OFFICE	Suite 1402 1080 Beaver Hall Hill Montreal, Quebec H2Z 1S8
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	Established pursuant to the *Pilotage Act* (S.C. 1970-71-72, C. 52) which was proclaimed to come into force on February 1, 1972.
CHIEF EXECUTIVE OFFICER AND CHAIRMAN	Paul Bailly
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	1984	1983	1982
At the end of the year				
Total Assets	6.3	5.1	5.2	5.4
Obligations to the private sector	0.7	0.4	0.1	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	(0.3)	(0.1)	0.3	1.1
Cash from Canada for the year				
— budgetary	2.0	1.5	1.0	nil
— non-budgetary	nil	nil	nil	nil

LAURENTIAN PILOTAGE AUTHORITY

AUDITOR'S REPORT

THE HONOURABLE DONALD FRANK MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

I have examined the balance sheet of Laurentian Pilotage Authority as at December 31, 1985 and the statements of operations, contributed capital, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Pilotage Act and regulations and the by-laws of the Authority.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 11, 1986

BALANCE SHEET AS AT DECEMBER 31, 1985

ASSETS	1985	1984
	$	$
Current		
Cash	21,525	13,829
Accounts receivable	5,041,879	3,725,409
	5,063,404	3,739,238
Fixed (Note 3)		
Land, buildings, pilot boats and other facilities	2,179,000	2,123,104
Less: accumulated depreciation	966,553	794,326
	1,212,447	1,328,778
	6,275,851	5,068,016

LIABILITIES	1985	1984
	$	$
Current		
Bank loan	650,000	375,000
Accounts payable	5,278,134	4,143,590
	5,928,134	4,518,590
Provision for employee termination benefits	641,000	647,000
	6,569,134	5,165,590
DEFICIENCY OF CANADA		
Contributed capital	914,293	650,175
Deficit	(1,207,576)	(747,749)
	(293,283)	(97,574)
	6,275,851	5,068,016

Approved by the Authority:

PAUL BAILLY
Chairman

YVON MATTE
Member

LAURENTIAN PILOTAGE AUTHORITY—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1985

	1985 $	1984 $
Revenues		
Pilotage charges	24,671,138	25,523,601
Interest and other revenues	78,006	100,312
Rewards for rescuing ships in distress—Net	89,438	45,529
	24,838,582	25,669,442
Expenses		
Pilots' fees, salaries and benefits	20,780,682	21,529,416
Operating costs of pilot boats	3,048,696	2,743,773
Staff salaries and benefits	1,693,963	1,577,311
Professional services and members' allowances	301,564	437,672
Rentals	228,181	210,806
Communications	139,916	125,068
Travel	110,991	122,983
Utilities, material and supplies	64,324	65,871
Financing costs	45,815	5,349
Bad debts	28,396	100,031
Maintenance	28,401	40,302
Other	114,908	96,903
	26,585,837	27,055,485
Net loss before unusual item	1,747,255	1,386,043
Unusual item—Incremental costs related to an investigation by the Canadian Transport Commission (Note 7)	331,126	
Net loss for the year	2,078,381	1,386,043

STATEMENT OF CONTRIBUTED CAPITAL FOR THE YEAR ENDED DECEMBER 31, 1985

	1985 $	1984 $
Balance at beginning of the year	650,175	278,128
Parliamentary appropriation to finance the previous year's acquisition of fixed assets	264,118	372,047
Balance at end of the year	914,293	650,175

STATEMENT OF DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1985

	1985 $	1984 $
Balance at beginning of the year	747,749	18,776
Net loss for the year	2,078,381	1,386,043
Parliamentary appropriations to finance operating deficits		
—Previous year	(1,106,554)	(594,037)
—Current year (Note 5)	(500,000)	
Services provided without charge by a government department	(12,000)	(63,033)
Balance at end of the year	1,207,576	747,749

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1985

	1985 $	1984 $
Operating activities		
Net loss for the year	2,078,381	1,386,043
Non-cash items		
Depreciation	(173,659)	(165,457)
Services provided without charge by a government department	(12,000)	(63,033)
Decrease (increase) in the provision for employee termination benefits	6,000	(51,000)
	1,898,722	1,106,553
Increase (decrease) in accounts receivable	1,316,470	(203,219)
Decrease (increase) in accounts payable	(1,134,544)	62,255
	2,080,648	965,589
Investing activities		
Additions to fixed assets	57,328	264,118
Financing activities		
Parliamentary appropriations	(1,870,672)	(966,084)
Bank loan, net of cash		
Increase for the year	267,304	263,623
Balance at beginning of the year	361,171	97,548
Balance at end of the year	628,475	361,171

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1985

1. Authority and activities

The Laurentian Pilotage Authority was established on February 1, 1972 under the Pilotage Act. Its objectives are to establish, operate, maintain and administer in the interests of safety an efficient pilotage service within certain designated Canadian waters in and around the Province of Quebec. The Act provides that pilotage tariffs shall be fair and reasonable and assure a revenue which, together with any revenue from other sources, is sufficient to permit the Authority to operate on a self-sustaining basis.

The Authority is a Crown corporation named in Part I of Schedule C to the Financial Administration Act.

2. Significant accounting policies

Fixed assets

Fixed assets obtained from Canada when the Authority was established were recorded at the then assigned values. Fixed assets purchased subsequently by the Authority are recorded at cost.

Fixed assets are depreciated using the straight-line method, at rates based on the estimated useful lives of the assets.

Contributed capital

The values assigned to the fixed assets obtained from Canada when the Authority was established and the net cost of fixed assets financed from parliamentary appropriations are recorded as contributed capital.

Parliamentary appropriations

Parliamentary appropriations received to finance the excess of expenditures over revenues are recorded in the year in which they are voted by Parliament, to contributed capital for that portion pertaining to the acquisition of fixed assets and to the deficit for that pertaining to operations. In this respect, operating expenditures include only those which require an outlay of funds.

Services provided without charge

Estimated amounts for services provided without charge by government departments are included in expenses with an offset to the deficit.

LAUNRENTIAN PILOTAGE AUTHORITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

Pension plan

Employees of the Authority participate in the Superannuation Plan administered by the Government of Canada. The employees and the Authority contribute equally to the cost of the Plan. This contribution represents the total liability of the Authority. Contributions in respect of current service and of admissible past service are expensed when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement.

Employee termination benefits

On termination of employment, employees of the Authority are entitled to certain benefits provided for under their collective agreements and their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

3. Fixed assets

Details of fixed assets are as follows:

	1985			1984
	Cost	Accumulated depreciation	Net	Net
	$	$	$	$
Land	9,300		9,300	9,300
Buildings	23,622	23,361	261	1,959
Pilot boats	1,386,892	612,743	774,149	882,644
Furniture and fixtures	96,222	57,566	38,656	34,541
Communications equipment	195,183	113,148	82,035	72,114
Boarding facilities	216,689	102,433	114,256	121,467
Wharf improvements	169,033	42,258	126,775	135,226
Leasehold improvements	82,059	15,044	67,015	71,527
	2,179,000	966,553	1,212,447	1,328,778

Depreciation for the year is $173,659 ($165,457 in 1984).

The estimated useful lives for the principal categories of fixed assets for the purposes of calculating depreciation are as follows:

Buildings	20 years
Pilot boats	10, 15 and 20 years
Furniture and fixtures	10 years
Communications equipment	10 years
Boarding facilities	10 and 20 years
Wharf improvements	20 years
Leasehold improvements	duration of the leases

4. Pension plan

The estimated unrecorded liability for employees' past services is $80,000 as at December 31, 1985 ($89,900 as at December 31, 1984).

5. Parliamentary appropriation

On December 12, 1985, the Treasury Board approved a temporary allotment of $500,000 from its Vote 5, Government Contingencies, prior to the release, in Supplementary Estimates "C" for 1985-86, of an appropriation to cover the Authority's cash deficit for the year 1985.

6. Trust account

The latest service contracts between the Authority and the pilots' corporations terminated on December 31, 1984 and on March 31, 1985. The terms of those contracts continue to be applied unless advised otherwise.

In view of these circumstances, agreements between representatives of the users of the pilotage service and the pilots' corporations were signed on December 26, 1985 in order to provide for supplementary interim remuneration to the pilots' corporations until the signing of new service contracts between the Authority and the pilots' corporations. Concurrently with the signing of those agreements, the Authority has agreed to administer, through a trust account, amounts to be received from users and subsequently distribute them to the pilots' corporations.

7. Canadian Transport Commission investigation

In January 1985, the Authority published in the Canada Gazette a copy of each tariff of pilotage charges that it had proposed to prescribe pursuant to the Pilotage Act. Notices of objection were filed with the Canadian Transport Commission, which subsequently made such investigation as in its opinion was necessary or desirable in the public interest. The Commission has not yet made its recommendation to the Authority.

Incremental costs of the Authority related to this investigation amounted to $331,126.

SUMMARY PAGE

LOTO CANADA INC.

MANDATE

To conduct and manage a national lottery.

BACKGROUND

The wind-up of this Corporation was authorized by the *Sports Pool and Loto Canada Winding-up Act*, which received Royal Assent on June 20, 1985. A Certification of Dissolution was issued on July 10, 1985.

CORPORATION DATA

DATE AND MEANS OF INCORPORATION — Incorporated under the *Canada Business Corporations Act* in 1976.

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	To July 10, 1985	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	nil	negl.	15.4	14.4
Obligations to the private sector	nil	negl.	nil	nil
Obligations to Canada	nil	(negl.)	15.2	14.2
Equity of Canada	nil	negl.	negl.	negl.
Cash from (to) Canada in the period				
— budgetary	nil	(16.4)	nil	nil
— non-budgetary	nil	nil	nil	nil

LOTO CANADA INC.

AUDITOR'S REPORT

THE HONOURABLE JAKE EPP, P.C., M.P.
MINISTER OF NATIONAL HEALTH AND WELFARE

I have examined the balance sheet of Loto Canada Inc. as at July 10, 1985 and the statement of income and expense for the period from April 1, 1985 to July 10, 1985. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at July 10, 1985 and the results of its operations for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
September 11, 1985

BALANCE SHEET AS AT JULY 10, 1985

ASSET	July 10, 1985	March 31, 1985
	$	$
Due from Receiver General for Canada		1
		1

CAPITAL STOCK	July 10, 1985	March 31, 1985
	$	$
One common share authorized, issued and fully paid		1
		1

Wind-up and contingent liability (Notes 2 and 5)

Approved by the Board of Directors:

DAVID KIRKWOOD
Director

H.J. MULLINGTON
Director

LOTO CANADA INC.—*Concluded*

STATEMENT OF INCOME AND EXPENSE
FOR THE PERIOD FROM APRIL 1, 1985 TO JULY 10, 1985

	July 10, 1985 (101 days)	March 31, 1985 (12 months)
	$	$
Interest income		1,010,017
Expense		
Professional fees		11,600
Office expenses		3,975
Travel and hospitality		2,775
Settlement of claims		1,422
		19,772
Provision for unbilled expenses (recovery)		(385,153)
		(365,381)
Net income for the period		1,375,398

NOTES TO FINANCIAL STATEMENTS
JULY 10, 1985

1. Termination of lottery operations

Loto Canada Inc. was incorporated under the Canada Business Corporations Act in 1976 and was a Crown corporation named in Part I of Schedule C to the Financial Administration Act. The Corporation's objective was to conduct and manage a national lottery in accordance with the National Lottery Regulations as authorized by the Criminal Code.

In August 1979, federal and provincial government representatives signed a document whereby Loto Canada Inc. would withdraw from the sale of lottery tickets effective December 31, 1979 and the Government of Canada would cause the Corporation to be wound up after that date as quickly as legal, financial and administrative requirements permit. The Shareholder directed the Board of Directors to commence the orderly wind-up of the operations effective August 21, 1979. The lottery operations were terminated effective December 31, 1979 and the right to claim prizes expired on December 31, 1980. At its July 7, 1983 meeting, the Board of Directors passed a resolution to commence immediately the final wind-up procedures of the Corporation.

2. Wind-up of Loto Canada Inc.

The Sports Pool and Loto Canada Winding-Up Act was proclaimed into force on June 20, 1985. The sections relevant to Loto Canada Inc. are as follows:

"6.(1) All rights and property held by or in the name of or in trust for Loto Canada Inc. and all obligations and liabilities of Loto Canada Inc. are deemed to be rights, property, obligations and liabilities of Her Majesty.

(2) The Minister (of National Health and Welfare) may do and perform all acts and things for or incidental to procuring the dissolution and closing out of the affairs of Loto Canada Inc.

7.(1) Any action, suit or other legal proceeding in respect of an obligation or liability incurred by ... Loto Canada Inc. or incurred by the Minister in closing out the affairs of .... Loto Canada Inc., may be brought or taken against Her Majesty in any court that would have had jurisdiction if the action, suit or other legal proceeding had been brought or taken against ... Loto Canada Inc. ...

(2) Any action, suit or other legal proceeding pending in any court against ... Loto Canada Inc. may be continued against Her Majesty to the same extent as it could, but for the coming into force of this Act, have been continued against ... Loto Canada Inc. ..."

Loto Canada Inc. has now concluded its operations and has been dissolved in accordance with the provisions of the Canada Business Corporations Act (CBCA). Accordingly, after a resolution by the shareholder, the Minister of National Health and Welfare, it had registered with the Director, Corporations Branch, Department of Consumer and Corporate Affairs a statement of Intent to Dissolve Loto Canada Inc., pursuant to Section 203 of the CBCA. A Certificate of Intent to Dissolve was issued by the Director in November 1984 and a Certificate of Dissolution was issued on July 10, 1985. The Corporation now ceases to exist.

3. Statement of Changes in Financial Position

The statement of changes in financial position was not prepared since it does not significantly improve the information contained in these financial statements.

4. Related party transactions

Two members of the Board of Directors are also officers of the Canadian Sports Pool Corporation.

All transactions with the Government of Canada and the Canadian Sports Pool Corporation were concluded during the year ended March 31, 1985.

5. Contingent liability

In 1980, certain ticket wholesalers who were operating in the Province of Ontario commenced legal proceedings against the Corporation. To date three writs have been processed and claims on two of the cases have been filed in the amount of $4,175,000 plus costs. This litigation continues to be contested and the outcome is not known at this time. Any settlement resulting from the resolution of the contingency will be accounted for in accordance with the provisions of Section 7.(2) of the Sports Pool and Loto Canada Winding-Up Act (Note 2).

SUMMARY PAGE

MARINE ATLANTIC INC.
(CN MARINE INC.)

MANDATE

To acquire, establish, manage and operate a marine transportation service, a marine maintenance, repair and refit service, a marine construction business and any service or business related thereto.

BACKGROUND

The company provides marine ferry services to Atlantic Canada. It was a subsidiary of Canadian National Railway Company but the government directed it to act as though it is a parent Crown corporation, effective January 1, 1985. Legislation proclaimed on June 27, 1986 changed the name of the company to Marine Atlantic Inc., authorized transfer of ownership to Her Majesty and, upon proclamation, will add the company's name to Part I of Schedule C of the *Financial Administration Act*.

CORPORATION DATA

HEAD OFFICE	100 Cameron Street Moncton, New Brunswick E1C 5Y6
STATUS	To be listed in Schedule C—Part 1 — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	1979, by the *Canada Business Corporations Act*
CHIEF EXECUTIVE OFFICER	R. J. Tingley
CHAIRMAN	J. D. Wilson
AUDITOR	Peat, Marwick, Mitchell and Co.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	1984
At the end of the year		
Total Assets	361	364
Obligations to the private sector	nil	negl.
Obligations to Canada	nil	nil
Equity of Canada	284	283
Cash from Canada in the year		
—budgetary	141	161
—non-budgetary	nil	nil

MARINE ATLANTIC INC. (FORMERLY CN MARINE INC.)

AUDITORS' REPORT

TO THE HONOURABLE D. MAZANKOWSKI
MINISTER OF TRANSPORT

We have examined the balance sheet of CN Marine Inc. as at December 31, 1985 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions of the Corporation that have come to our notice in the course of our examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the charter and by-laws of the Corporation.

The comparative figures are based on financial statements which were reported upon by other auditors.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Moncton, Canada
February 14, 1986

BALANCE SHEET AS AT DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984
Current assets		
Cash	82	34
Accounts receivable	4,468	4,434
Shipbuilding subsidies receivable	8,552	6,638
Recoverable expenses	9,521	12,645
Due from parent company	31,232	36,465
Inventory of fuel and supplies (Note 2)	9,004	7,933
Prepaid expenses	1,339	1,249
Total current assets	64,198	69,398
Long-term receivables (including shipbuilding subsidies of \$1,500—1984: \$1,200)	1,718	1,481
Long-term recoverable expenses	923	159
Fixed assets (Note 3)	292,992	292,733
Deferred charges	1,623	79
	361,454	363,850

LIABILITIES AND SHAREHOLDERS' EQUITY	1985	1984
Current liabilities		
Accounts payable and accruals	21,365	24,873
Accrued vessel refit and vacation pay costs	9,521	12,645
Deferred revenue	182	5
Current portion of long-term debt		58
Total current liabilities	31,068	37,581
Long-term accrued vessel refit costs	923	159
Deferred income taxes	43,187	41,463
Deferred credits	1,605	1,132
Provision for personal injury	975	941
SHAREHOLDERS' EQUITY		
Capital stock		
Common shares without par value		
Authorized—Unlimited number; issued and fully paid 517,061 shares	258,530	258,530
Retained earnings	25,166	24,044
Total shareholders' equity	283,696	282,574
Commitments and contingencies (Notes 7, 8 and 9)		
	361,454	363,850

See accompanying notes to financial statements.

On behalf of the Board:

J. D. WILSON
Director

RUPERT J. TINGLEY
Director

MARINE ATLANTIC INC. (FORMERLY CN MARINE INC.)—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Revenue		
Operations	190,787	206,314
Expenses		
Operations	178,403	177,901
Depreciation and amortization	11,865	12,443
Interest on long-term debt		5
	190,268	190,349
	519	15,965
Interest income	2,873	3,023
Income before provision for income taxes and extraordinary item	3,392	18,988
Provision for income taxes—Deferred	1,724	9,657
Income before extraordinary item	1,668	9,331
Extraordinary item (Note 4)		2,060
Net income for the year	1,668	11,391
Retained earnings, beginning of year as restated (Note 5)	24,044	18,183
	25,712	29,574
Dividends (Note 6)	546	5,530
Retained earnings, end of year	25,166	24,044

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Funds provided		
Income before extraordinary item	1,668	9,331
Add (deduct) items not requiring (providing) funds		
Depreciation and amortization	11,865	12,443
Deferred income taxes	1,724	10,497
Provision for vessel refits	764	(628)
Provision for personal injury	34	72
Net loss on disposal of fixed assets	127	
Funds provided from operations	16,182	31,175
Extraordinary item, less applicable income taxes of $840		2,060
Transfer of other assets to fixed assets		12,900
Issuance of capital stock		18,200
Net proceeds from disposal of fixed assets	22	217
Decrease in long-term receivables		1,845
Increase in deferred credits	473	1,132
Decrease in deferred charges		1,415
Total funds provided	16,677	69,484
Funds used		
Additions to fixed assets	12,273	42,741
Increase in deferred charges	1,544	803
Increase in long-term receivables	237	
Dividends	546	5,530
Decrease in long-term debt		58
Increase in recoverable expenses	764	
Total funds applied	15,364	49,132
Increase in working capital	1,313	20,352
Working capital, beginning of year	31,817	11,465
Working capital, end of year	33,130	31,817

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1985

1. Significant accounting policies

The accompanying financial statements are prepared by management on the historical cost basis in accordance with accounting principles generally accepted in Canada. A summary of significant accounting policies is set out below:

Inventory of fuel and supplies

Inventories are valued at the lower of cost and replacement cost. Cost is determined on a weighted average basis.

Fixed assets

Fixed assets are carried at cost less accumulated depreciation.

Depreciation

Depreciation is calculated at rates sufficient to write off properties over their estimated useful lives, generally on a straight-line basis. Assets acquired from the Canadian National Railway Company in 1979 are depreciated based upon the original cost to the Ministry of Transport of $197.7 million. The rates for significant classes of assets are as follows:

Vessels	5%
Terminal properties	2.5%
Equipment	10%, 12.5% and 25%

Shipbuilding subsidies

Shipbuilding subsidies available on fixed assets acquired through long-term construction contracts are accrued on the percentage of completion basis and applied to reduce the cost of assets under construction.

Deferred charges

Deferred charges are accounted for at cost.

Deferred credits

The deferred credits representing investment tax credits refundable are accrued when the qualifying expenditures are made and when there is reasonable assurance that the credits will be realized.

The amortization of deferred investment tax credits is calculated using the same method and rates as those used for the fixed assets to which they relate.

Provision for personal injury

The provision for personal injury reflects Provincial Workers' Compensation Board estimates of the cost of long-term payments required for existing disability awards.

Accrued vessel refit and vacation pay costs

Accrued vessel refit and vacation pay costs are considered recoverable in the future through contracts with the Ministry of Transport. Accordingly, the company has recorded an equal amount of recoverable expenses as an asset and as accrued contract revenue.

Vessel spare parts

The company maintains spare parts for vessels in service. The acquisition of spare parts is charged to operations in the period the purchase is made.

MARINE ATLANTIC INC. (FORMERLY CN MARINE INC.)—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Continued*

Pensions

As at December 31, 1985, substantially all employees of the company were covered for retirement benefits under the 1935 and 1959 Pension Plans of Canadian National Railway Company. Current service costs are charged to operations as they accrue and past service costs are charged to operations in annual amounts covering principal and interest over varying periods to 2006.

The funding payments are determined in accordance with the accrued benefit actuarial cost method.

Effective January 1, 1986, the company will assume responsibility for these retirement benefits and the administration of the pension plan. Certain assets will be transferred from the pension plan of Canadian National Railway Company during 1986 and the estimates of the assumed pension liability will be actuarially determined at that time.

2. Inventory of fuel and supplies

	1985	1984
	(in thousands of dollars)	
Inventories consist of		
Fuel	8,230	7,250
Supplies	774	683
	9,004	7,933

3. Fixed assets

	1985			1984
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
	(in thousands of dollars)			
Vessels	147,227	43,164	104,063	110,779
Terminal properties	63,092	13,578	49,514	47,504
Equipment	10,381	6,621	3,760	3,599
Leasehold improvements	483	108	375	489
	221,183	63,471	157,712	162,371
Depreciation adjustment (Note 5)				825
Assets under construction (Note 8)	135,280		135,280	129,537
	356,463	63,471	292,992	292,733

Included in assets under construction are payments and accounts payable to a shipbuilder which exceed the value of work completed as at December 31, 1985 by $4.8 million (1984—$31.6 million).

Shipbuilding subsidies applied to reduce the cost of assets under construction amount to $10.0 million (1984—$7.8 million).

4. Extraordinary item

	1985	1984
	(in thousands of dollars)	
Gain on disposal of ship, less applicable deferred income taxes of $840 thousand		2,060

Following the receipt by the company of net proceeds on disposal of the ship in the amount of $2.9 million, Transport Canada invoked Section 33(1) of the Tripartite Agreement dated May 9, 1979. According to this Section of the Tripartite Agreement, Transport Canada has the right to claim, as an adjustment to contract payments in the year of occurrence, an amount equal to the proceeds on disposal of assets which it considers surplus to the company's requirements.

Accordingly, contract revenues for the year ended December 31, 1984 were decreased by $2.9 million and accounts payable as at December 31, 1984 were increased by the same amount.

5. Restatement of retained earnings

Excess depreciation expense recorded in years prior to 1984 has been restated to conform with company policy. The accumulated depreciation accounts have been reduced by $825 thousand with a corresponding increase recorded in retained earnings, net of deferred income taxes, of $420 thousand.

6. Dividends

The company was required to have the approval of the Minister of Transport to declare dividends in excess of 45% of current earnings. The dividend paid in 1985 reflects the final dividend settlement paid to the Canadian National Railway Company computed in reference to 1984 (Note 11).

7. Operating leases

The company makes use of property which is available through operating leases. The minimum lease payments are as follows:

	(in thousands of dollars)
1986	1,797
1987	795
1988	795
1989	358
1990	343
1991	343
Total minimum lease payments	4,431

8. Major commitment

The amount required to complete contracted fixed assets under construction is estimated to be $31.6 million.

9. Contingencies

The company has received a claim of approximately $14 million plus interest from the builder of one of the company's vessels. The company has filed a claim of approximately $14 million plus interest against the builder. The matter is in arbitration and the outcome of this matter cannot be determined at this time. The company is also in receipt of claims which have not yet reached litigation. The company's estimate of total financial exposure for these items is $1.8 million, however any final determination is presently unknown.

10. Related party transactions

The company provides marine ferry services under contractual arrangements with the Minister of Transport and with its parent company. The revenue derived from such services amounted to $141.1 million during 1985 (1984 — $161.3 million). Goods and services received from affiliated companies amounted to approximately $14.6 million during 1985 (1984 — $18.7 million).

Interest income received from the parent company amounted to $2.9 million during 1985 (1984 — $3.0 million).

MARINE ATLANTIC INC. (FORMERLY CN MARINE INC.)—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

11. Important event

Under Orders In Council issued in December, 1984, control of the company passed to the Government of Canada on January 1, 1985. Legislation has been introduced in 1985 to transfer ownership of the company from the Canadian National Railway Company to the Government of Canada. Until such legislation is enacted, the Canadian National Railway Company is prohibited from exercising the rights of a controlling shareholder without the consent of the Minister of Transport.

12. Income taxes

Prior to 1985, the company's income was reported for income tax purposes as part of the Canadian National Railway System. Due to the change in control mentioned in Note 11, the company is no longer required by the Canadian National Railway Company to report as part of their system. The tax status of the company after the proposed legislated change in ownership to the Government of Canada is presently undeterminable.

13. Other

Pursuant to an Order In Council issued in December 1985, the company has been authorized to acquire all of the issued and outstanding shares of Coastal Transport Limited on or before January 1, 1987.

14. Comparative figures

Certain of the prior year's figures have been restated to conform with the current year's presentation.

SUMMARY PAGE

MINGAN ASSOCIATES LIMITED

MANDATE

To purchase land for eventual disposition.

BACKGROUND

Ownership of the company was purchased for Canada in 1983 to obtain the land and fishing rights it owns. Those are to be converted into (Indian) reserve property after which the company would be dissolved. First, however, a suit launched by the Province of Quebec asserting its prior rights to the land must be resolved.

CORPORATION DATA

HEAD OFFICE	10 Wellington Street 18th Floor Les Terrasses de la Chaudière Hull, P.Q. K1A 0H4
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Bill McKnight, P.C., M.P.
DEPARTMENT	Indian Affairs and Northern Development
DATE AND MEANS OF INCORPORATION	Order in Council 1983-4029; a corporation under Part 1A of the Quebec *Companies Act*.
CHIEF EXECUTIVE OFFICER	Vacant
CHAIRMAN	Vacant
FINANCIAL SUMMARY	This is not an operating company. Total assets have only nominal value.

MINGAN ASSOCIATES, LTD.

THE CORPORATION HAS NEGLIGIBLE ASSETS AND WAS INACTIVE
DURING THE REPORT PERIOD

SUMMARY PAGE

MONTREAL PORT CORPORATION

MANDATE

Administration, management and control of the Montreal harbour and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Montreal Port Corporation was established on July 1, 1983 pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. The Port of Montreal is the largest on the east coast of Canada and handles more diversified traffic than any of the other ports previously administered by the Canada Ports Corporation. The port handled 21.1 million tonnes of cargo in 1985 including 4.6 million tonnes of grain and 4.4 million tonnes of containerized cargo.

CORPORATION DATA

HEAD OFFICE	Edifice du Port de Montréal Aile No. 1 Cité du Havre Montreal, P.Q. H3C 3R5
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	July 1, 1983; letters patent of incorporation issued by the Minister of Transport pursuant to subsection 6.2(1) of the *Canada Ports Corporation Act.*
CHIEF EXECUTIVE OFFICER	Dominic J. Taddeo
CHAIRMAN	Ronald Corey
AUDITOR	Samson Bélair

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	1984	Six months ending December 31, 1983
At the end of the period			
Total Assets	253.7	237.2	213.6
Obligations to the private sector	nil	nil	nil
Obligations to Canada*	141.1	141.4	141.9
Equity of Canada	(2.3)	(22.1)	(48.9)
Cash from Canada in the period			
— budgetary	nil	nil	nil
— non-budgetary	nil	nil	nil

* Excludes $98.2 million in accrued interest owed to Canada.

MONTRÉAL PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DONALD MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the statements of income, deficit and changes in financial position of the Montréal Port Corporation for the fiscal year ended December 31, 1985 and its balance sheet at that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the results of operations and the changes in the financial position of the Corporation for the year ended December 31, 1985 and its financial position at that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions of the Corporation that have come under our notice in the course of our examination of the financial statements were, in all material respects, in accordance with the Financial Administration Act and regulations thereto, the charter and by-laws of the Corporation and any directive given to the Corporation.

Samson Bélair
Chartered Accountants

Montréal, Canada
February 19, 1986

BALANCE SHEET AS AT DECEMBER 31
(in thousands of dollars)

ASSETS	1985	1984
Current		
Cash	298	644
Investments (Note 4)	79,594	67,116
Accounts receivable	10,003	9,469
Materials and supplies	774	733
	90,669	77,962
Long-term		
Investments (Note 4)	39,041	38,984
Receivable	552	578
	39,593	39,562
Fixed assets (Note 5)	123,433	119,626
	253,695	237,150

LIABILITIES	1985	1984
Current		
Accounts payable and accrued liabilities (Note 6)	9,022	9,277
Grants in lieu of municipal taxes	2,851	5,496
	11,873	14,773
Long-term		
Accrued employee benefits	5,207	5,277
Loans from Canada (Note 7)	238,869	239,208
	244,076	244,485
EQUITY OF CANADA		
Contributed capital	19,243	19,243
Deficit	(21,497)	(41,351)
	(2,254)	(22,108)
	253,695	237,150

On behalf of the Board:

RONALD COREY
Chairman

DOMINIC J. TADDEO
General Manager and Chief Executive Officer

MONTRÉAL PORT CORPORATION—*Continued*

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1985	1984
Revenue from operations	54,729	57,325
Operating and administrative expenses	37,345	35,829
Depreciation	6,711	6,298
Grants in lieu of municipal taxes	3,914	4,287
	47,970	46,414
Net income from operations	6,759	10,911
Investment income	12,006	10,232
Interest expense	523	542
	11,483	9,690
Net income before unusual and extraordinary item	18,242	20,601
Adjustment of grants in lieu of municipal taxes	1,612	
Net income before extraordinary item	19,854	20,601
Net gain on disposal and devaluation of fixed assets		6,205
Net income for the year	19,854	26,806

STATEMENT OF DEFICIT FOR THE YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1985	1984
Balance at beginning	41,351	68,157
Net income for the year	19,854	26,806
Balance at the end	21,497	41,351

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1985	1984
Operating activities		
Net income before extraordinary item	19,854	20,601
Items not requiring an outlay of funds		
Depreciation	6,711	6,298
Others	(63)	592
	26,502	27,491
Cash used by changes in other elements in working capital (Note 3)	(3,475)	(2,606)
	23,027	24,885
Financing activities		
Repayment of loans from Canada	(339)	(319)
Investing activities		
Disposal of long-term investments		275
Acquisition of long-term investments	(57)	
Receipt of long-term receivable	26	445
Disposal of fixed assets		13,244
Acquisition of fixed assets	(10,525)	(23,705)
	(10,556)	(9,741)
Increase in cash during the year	12,132	14,825
Cash at beginning	67,760	52,935
Cash at end	79,892	67,760
Cash		
Cash	298	644
Investments (treasury bills)	79,594	67,116
	79,892	67,760

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1985

1. Status

The Montréal Port Corporation (the Corporation) was incorporated by letters patent in accordance with paragraph 6.2(1) of the Canada Ports Corporation Act on July 1, 1983.

Following section 6.5 of the Canada Ports Corporation Act on the establishment of a local port corporation, all rights, obligations and liabilities of the Corporation in relation to that harbour shall become rights, obligations and liabilities of the local port corporation, as it is for the Corporation.

2. Significant accounting policies

(a) Fixed assets and depreciation

Fixed assets are recorded at original cost with related accumulated depreciation transferred from Canada Ports Corporation; subsequent acquisitions are recorded at cost. Depreciation on fixed assets is calculated according to the straight-line method for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

(b) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the plan are required from both the employees and the Corporation. These contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis.

MONTRÉAL PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

(c) Grants in lieu of municipal taxes

Grants in lieu of municipal taxes are based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(d) Employee benefits

The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave, sick leave and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements, or in accordance with Corporation policy.

3. Changes in elements in working capital

	1985	1984
	(in thousands of dollars)	
Increase (decrease) in accounts receivable	534	(230)
Increase (decrease) in materials and supplies	40	(63)
Decrease in accounts payable and accrued liabilities	256	1,855
Decrease in grants in lieu of municipal taxes	2,645	1,044
	3,475	2,606

4. Investments

Funds are invested in Government of Canada direct securities and guaranteed by the Government of Canada which are shown at amortized cost, with premiums or discounts amortized over the periods to maturity. As at December 31, 1985, the market value of the short-term investments represents its amortized cost, and that of long-term investments is $43,881,239 ($37,694,896 in 1984).

5. Fixed assets

	1985				1984
	Depreciation rates	Cost	Accumulated depreciation	Net value	Net value
	%	(in thousands of dollars)			
Land		18,060		18,060	17,967
Dredging	2.5	15,325	11,538	3,787	4,052
Berthing structures	2.5	58,946	36,059	22,887	23,472
Buildings	2.5	61,070	27,652	33,418	33,676
Utilities	5	12,782	6,001	6,781	6,466
Roads and surfaces	2.5-10	27,453	8,759	18,694	14,279
Machinery and equipment	5-20	41,473	26,848	14,625	16,573
Office furniture and equipment	20	893	645	248	220
		236,002	117,502	118,500	116,705
Projects under construction		4,933		4,933	2,921
		240,935	117,502	123,433	119,626

6. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are amounts for deferred revenues of $792,840 ($770,520 in 1984) and for the current portion of long-term liabilities of $339,365 ($319,403 in 1984).

7. Loans from Canada

	1985	1984
	(in thousands of dollars)	
Loans bearing interest at 6.25% with blended annual principal and interest repayment requirements of $842,561 and maturing in the year 2000	8,051	8,370
Less: current portion	339	319
	7,712	8,051
Non-interest bearing loans with indefinite due date	132,995	132,995
Accrued interest on loans not due nor payable	98,162	98,162
	238,869	239,208

Principal repayment requirements over the next five years amount to:

	$
1986	339,365
1987	360,576
1988	383,112
1989	407,056
1990	432,497

8. Contingencies

Claims aggregating approximately $5,811,000 in respect of lawsuits, guarantees and damages allegedly suffered on the Corporation property and sundry other legal matters in dispute that have been made against the Corporation but are not reflected in the accounts. In the opinion of the Corporation, its position is defensible and the final outcome of such claims should not result in any material loss.

9. Capital expenditure commitments

Contractual obligations for the completion, construction and purchase of fixed assets are estimated at $10,978,503.

10. Related party transactions

In the ordinary course of business, the Corporation enters into transactions with related parties, including the Government of Canada, its agencies and other Crown corporations.

The Corporation derives revenues from related parties principally of grain warehousing and switching charges. The expenses paid to related parties are principally administration fees.

11. Subsequent events

The Government of Canada has requested cash contributions from various Crown corporations. As part of this cash recovery exercise, there was a request for a contribution of $133,000,000 from the Ports Canada system (made up of the Canada Ports Corporation and the six Local Port Corporations) of which $83,000,000 is payable by March 31, 1986, and $50,000,000 by June 30, 1986.

The Board of Directors of the Corporation resolved at its meeting of February 19, 1986, to remit to the Government of Canada the sum of $33,018,000 representing the Corporation's share of the requested contribution of $83,000,000 payable by March 31, 1986. The Corporation's share of the $50,000,000 payable by June 30, 1986 has not been considered by the Board.

In 1986, these contributions will be charged to the contributed capital and/or to the non-interest bearing loans with indefinite due dates.

SUMMARY PAGE

NATIONAL ARTS CENTRE CORPORATION

MANDATE

To operate and maintain the National Arts Centre; to develop the performing arts in the National Capital Region and to assist the Canada Council in the development of the performing arts elsewhere in Canada.

BACKGROUND

At its inception in 1969, the corporation was given the lease of the National Arts Centre complex without charge. The corporation's operating losses are met with payments from Canada, plus some cash out of the corporation's short term investments (balance at August 31, 1985 $8.1 million). The corporation is a charitable organization for the purposes of the *Income Tax Act*.

CORPORATION DATA

HEAD OFFICE	Confederation Square Ottawa, Ontario K1P 5W1
STATUS	— exempt from the provisions of Divisions I to IV of Part XII of the *Financial Administration Act* — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Flora MacDonald, P.C., M.P.
DEPARTMENT	Communications
DATE AND MEANS OF INCORPORATION	1967, by *The National Arts Centre Act*, (R.S.C., 1970 C.N-8)
CHIEF EXECUTIVE OFFICER	Donald J.A. MacSween
CHAIRMAN	Pierre Boutin
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends August 31.

	1984-85	1983-84	1982-83 (restated)
At the end of the period			
Total Assets	14.7	14.1	15.6
Obligations to the private sector	2.8	2.0	1.5
Obligations to Canada	nil	0.1	0.2
Equity of Canada	negl.	(0.4)	1.0
Cash from Canada in the period			
— budgetary	15.3	15.5	15.3
— non-budgetary	nil	nil	nil

NATIONAL ARTS CENTRE CORPORATION

AUDITOR'S REPORT

MR. PIERRE BOUTIN
CHAIRMAN OF THE BOARD OF TRUSTEES
NATIONAL ARTS CENTRE CORPORATION

I have examined the balance sheet of the National Arts Centre Corporation as at August 31, 1985 and the statements of revenue and expenses, operating surplus and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at August 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
October 25, 1985

BALANCE SHEET AS AT AUGUST 31, 1985

ASSETS	1985	1984
	$	$
Current		
Cash		184,995
Short-term investments	8,057,641	8,766,206
Accounts receivable (Note 3)	1,223,105	683,343
Inventories (Note 4)	366,999	438,106
Costs of programmes in progress	952,794	411,123
Prepaid expenses (Note 5)	697,000	262,041
	11,297,539	10,745,814
Fixed assets (Note 6)	3,378,779	3,367,780
	14,676,318	14,113,594

LIABILITIES	1985	1984
	$	$
Current		
Bank overdraft	136,501	
Accounts payable and accrued liabilities (Note 7)	2,142,018	2,208,668
Deferred revenue (Note 8)	2,814,871	2,045,422
Current portion of long-term obligation	67,092	64,008
Deferred parliamentary appropriations		
Operating (Note 9)	8,501,500	8,652,000
Extraordinary building repairs (Note 10)	611,463	1,100,358
	14,273,445	14,070,456
Long-term obligation under capital lease (Note 11)		67,092
Provision for employee termination benefits	394,495	357,812
	394,495	424,904
	14,667,940	14,495,360
EQUITY (DEFICIENCY) OF CANADA		
Surplus (deficit)	8,378	(381,766)
	14,676,318	14,113,594

Approved by Management:

D.J.A. MACSWEEN
Director General

R.D. BLACKBURN
Assistant Director General
Finance and Administration

Approved by the Board of Trustees:

J. PIERRE BOUTIN
Chairman

THOMAS C. ASSALY
Vice-Chairman

NATIONAL ARTS CENTRE CORPORATION—*Continued*

STATEMENT OF REVENUE AND EXPENSES FOR THE YEAR ENDED AUGUST 31, 1985

	1985	1984
	$	$
Operating revenue		
Performing arts programmes (Schedule 1)	6,971,740	6,617,050
Restaurants (Schedule 2)	2,794,280	2,657,076
Garage (Schedule 3)	1,614,389	1,288,157
Rentals	244,776	254,543
Boutique (Schedule 7)	97,614	55,741
Other	751,486	758,563
	12,474,285	11,631,130
Operating expenses		
Performing arts programmes (Schedule 1)		
Direct operating costs	13,036,840	14,130,270
Support services	3,193,552	3,176,217
Restaurants (Schedule 2)	2,582,893	2,736,360
Garage (Schedule 3)	401,455	442,129
Operation of the buildings (Schedule 4)	4,433,117	4,255,475
Administrative services (Schedule 5)	3,854,112	3,654,809
Boutique (Schedule 7)	100,892	97,939
	27,602,861	28,493,199
Excess of operating expenses over operating revenue	15,128,576	16,862,069
Other income		
Interest on short-term investments	436,970	666,054
Regional municipal grant	257,250	245,000
	694,220	911,054
Excess of expenses over revenue	14,434,356	15,951,015

STATEMENT OF OPERATING SURPLUS FOR THE YEAR ENDED AUGUST 31, 1985

	1985	1984
	$	$
(Deficit) surplus at beginning of the year	(381,766)	973,549
Excess of expenses over revenue	(14,434,356)	(15,951,015)
	(14,816,122)	(14,977,466)
Parliamentary appropriation—Operating	14,824,500	14,595,700
Surplus (deficit) at end of the year	8,378	(381,766)

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED AUGUST 31, 1985

	1985	1984
	$	$
Source of funds		
Parliamentary appropriations		
Operating	14,824,500	14,595,700
Extraordinary building repairs	488,895	915,344
Interest on short-term investments and regional municipal grant	694,220	911,054
Proceeds from disposal of fixed assets	10,600	
	16,018,215	16,422,098
Application of funds		
Excess of operating expenses over operating revenue	15,128,576	16,862,069
Items not requiring an outlay of funds		
Loss on disposal of fixed assets	(1,112)	
Increase in the provision for employee termination benefits	(36,683)	(60,447)
Depreciation and amortization	(679,878)	(540,025)
Funds applied to operations	14,410,903	16,261,597
Additions to fixed assets	702,589	2,005,553
Extraordinary building repairs	488,895	915,344
Decrease in long-term obligation under capital lease	67,092	64,008
	15,669,479	19,246,502
Increase (decrease) in working capital	348,736	(2,824,404)
Working capital deficiency at beginning of the year	(3,324,642)	(500,238)
Working capital deficiency at end of the year	(2,975,906)	(3,324,642)

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 1985

1. Objectives and operations

The objectives of the Corporation are: to operate and maintain the National Arts Centre; to develop the performing arts in the National Capital Region; and to assist the Canada Council in the development of the performing arts elsewhere in Canada.

In furtherance of its objectives, the Corporation may arrange for and sponsor performing arts activities at the Centre; encourage and assist in the development of performing arts companies resident at the Centre; arrange for or sponsor radio and television broadcasts and the showing of films in the Centre; provide accommodation at the Centre, on such terms and conditions as the Corporation may fix, for national and local organizations whose objects include the development and encouragement of the performing arts in Canada; and, at the request of the Government of Canada or the Canada Council, arrange for performances elsewhere in Canada by performing arts companies, whether resident or non-resident in Canada, and arrange for performances outside Canada by performing arts companies resident in Canada.

With a view to achieving the objectives, Her Majesty demised and leased the National Arts Centre building complex to the Corporation for a period of twenty years, expiring May 31, 1989. Under the terms of the lease, the Corporation is responsible for maintenance and operation of the building complex, but is not required to pay for the use of the complex.

NATIONAL ARTS CENTRE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 1985—*Continued*

2. Significant accounting policies

(a) Basis of accounting

The accounts of the Corporation are maintained on an accrual basis.

(b) Short-term investments

Short-term investments are carried at cost which approximates market value.

(c) Grants

Grants are recorded as revenue in the year in which the grantors make firm commitments to the Corporation.

(d) Costs of programmes in progress

Direct costs, including advances to performing companies and artists, incurred prior to the end of the year for programmes in progress are deferred and charged to expense in the year in which the programmes terminate. Indirect costs and common services not attributable to particular performances are charged to expense in the year in which they are incurred.

(e) Inventories

Inventories are valued at the lower of cost and net realizable value (food, beverages and boutique materials) or replacement cost (production materials).

(f) Fixed assets

Fixed assets used in the operations, other than the NAC complex, are recorded at cost. Depreciation and amortization are calculated on the straight-line method, as follows:

Building—l'Atelier	20 years
Equipment	5 and 7 years
Leasehold improvements	4 and 10 years

Gains and losses on disposals of fixed assets are credited or charged to operations.

Cost of uncompleted capital projects are transferred to the appropriate fixed asset classification upon completion, and are then depreciated or amortized according to the Corporation's policy.

Extraordinary repairs to the NAC building complex are deducted from the parliamentary appropriation received for that purpose and are neither capitalized nor expensed.

(g) Deferred revenue

Revenue from tickets sold prior to the end of the year for programmes in progress is deferred and credited to revenue in the year in which the programmes terminate. Gift certificates and exchange vouchers not redeemed within three years of the year of their issuance are written off and credited to revenue. A percentage of those less than three years old is also credited to revenue.

(h) Capital lease

The equipment and related obligation for capital lease are recorded at an amount equal to the present value of future lease payments. Equipment recorded under capital lease is amortized on a straight-line method using the Corporation's policy on fixed assets. Obligation under capital lease is reduced by rental payments net of imputed interest.

(i) Operating expenses

Expenses of performing arts programmes do not include costs relating to building and equipment maintenance, utilities, administrative services, furniture and equipment. Expenses of restaurants, garage and boutique do not include costs relating to utilities, administrative services and building maintenance. These costs are disclosed respectively as operation of the buildings expenses and administrative services.

(j) Pension plan

Employees of the Corporation participate in the Public Service Superannuation plan, administered by the Government of Canada. Contributions to the plan are required by both the employees and the Corporation. These contributions represent the Corporation's total obligation and are recorded as they become due.

(k) Employee termination benefits

Employees of the Corporation are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees under the respective terms of employment.

(l) Parliamentary appropriations

The parliamentary appropriation for operations, received during the year ended August 31, is in respect of the Government of Canada's fiscal year ending on March 31 of the following year. Accordingly, as the amount received up to August 31 represents the total appropriation, 7/12ths is deferred to the following year and the balance, along with the amount deferred from the previous year, is credited to Operating Surplus.

The parliamentary appropriation received for extraordinary building repairs is deferred until used. An amount equal to the repairs incurred during the year is deducted from the deferred parliamentary appropriation—extraordinary building repairs. Should the total cost of the repairs be less than the amount received, the balance will be returned to the Consolidated Revenue Fund.

3. Accounts receivable

	1985	1984
	$	$
Customers' accounts	851,907	510,162
Allowance for bad debts	(8,009)	(39,394)
	843,898	470,768
Grants	128,625	66,227
Loans to musicians—Purchase of instruments	108,021	61,250
Accrued interest	90,280	65,392
Other	52,281	19,706
	1,223,105	683,343

4. Inventories

	1985	1984
	$	$
Production materials	225,213	302,819
Food, beverages and tobacco	120,073	125,469
Boutique	21,713	9,818
	366,999	438,106

NATIONAL ARTS CENTRE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 1985—*Concluded*

5. Prepaid expenses

	1985	1984
	$	$
Salaries for musicians on tour	226,561	
Supplies	143,007	165,595
Travel expenses for musicians and artists on tour	126,772	
Commissions	87,430	
Souvenirs and other items	34,517	30,313
Miscellaneous	78,713	66,133
	697,000	262,041

6. Fixed assets

	1985			1984
	Cost	Accumulated depreciation	Net book value	Net book value
	$	$	$	$
Land	90,000		90,000	90,000
Building—l'Atelier	298,069	58,975	239,094	253,997
Equipment	3,210,843	1,390,331	1,820,512	1,496,205
Equipment under capital lease	302,025	238,590	63,435	111,153
Leasehold improvements	1,685,646	546,347	1,139,299	1,111,650
Uncompleted capital projects	26,439		26,439	304,775
	5,613,022	2,234,243	3,378,779	3,367,780

7. Accounts payable and accrued liabilities

	1985	1984
	$	$
Trade	1,075,935	1,207,652
Accrued salaries and annual leave	592,369	524,121
Payroll deductions and sales tax	463,038	460,283
Holdbacks on contracts	10,676	16,612
	2,142,018	2,208,668

8. Deferred revenue

	1985	1984
	$	$
Tickets sold prior to the end of the year for programmes in progress	2,675,763	1,916,309
Unredeemed gift certificates and other	139,108	129,113
	2,814,871	2,045,422

9. Parliamentary appropriation—Operating

	1985	1984
	$	$
Deferred from the previous year	8,652,000	8,415,700
Received during the year	14,674,000	14,832,000
Credited to Operating Surplus	(14,824,500)	(14,595,700)
Deferred to the following year	8,501,500	8,652,000

Of the amount received during the year, $100,000 pertained to the Ontario Bicentennial celebrations and was expended for that purpose.

10. Parliamentary appropriation—Extraordinary building repairs

	1985	1984
	$	$
Deferred from the previous year	1,100,358	2,015,702
Expenses for the year	(488,895)	(915,344)
Deferred to the following year	611,463	1,100,358

11. Obligation under capital lease

The future minimum lease payments under capital lease are as follows:

	1985	1984
Year ending August 31	$	$
1985		83,070
1986	73,367	73,367
Total future minimum lease payments	73,367	156,437
Less: amount representing interest	6,275	25,337
Present value of obligation under capital lease	67,092	131,100
Less: current portion	67,092	64,008
Long-term obligation under capital lease		67,092

The capital lease was recorded at an amount equal to the present value of the minimum lease payments using an implicit lease interest rate of 16%. This obligation expires in 1986.

12. Commitments

As at August 31, 1985, commitments for operating leases and box office management services, with terms of more than one year, amounted to $1,658,859. Future minimum payments under these arrangements are payable as follows:

Year ending August 31	$
1986	511,245
1987	326,762
1988	235,852
1989	115,000
1990	115,000
1991	165,000
1992	190,000
	1,658,859

13. Related party transactions

In addition to the rental of the NAC complex, provided free of charge, the Corporation receives audit services without charge from the Office of the Auditor General of Canada.

During the year, in the normal course of business, the Corporation made payments totalling $514,511 (1984 — $495,000) to the Department of Public Works for utility services and $84,378 (1984 — $102,122) to the National Capital Commission for ground maintenance and snow removal.

14. Comparative figures

Certain figures for the year ended August 31, 1984 have been reclassified to conform to the presentation adopted for the year ended August 31, 1985.

NATIONAL ARTS CENTRE CORPORATION—*Continued*

SCHEDULE OF REVENUE AND EXPENSES—PERFORMING ARTS PROGRAMMES FOR THE YEAR ENDED AUGUST 31, 1985

SCHEDULE 1

	Dance and Variety		Music		Theatre		Total	
	1985	1984	1985	1984	1985	1984	1985	1984
	$	$	$	$	$	$	$	$
Revenue								
Box office	3,337,033	3,142,590	1,203,342	1,466,499	1,412,844	1,458,078	5,953,219	6,067,167
Specific grants			300	7,800		2,000	300	9,800
Recovery of costs	15,163	70,948	420,985	187,772	305,525	64,740	741,673	323,460
Other		748	263,461	198,805	13,087	17,070	276,548	216,623
	3,352,196	3,214,286	1,888,088	1,860,876	1,731,456	1,541,888	6,971,740	6,617,050
Expenses								
Direct								
Talent, performers and musicians	2,597,535	2,669,679	3,531,459	3,512,751	1,213,848	1,348,440	7,342,842	7,530,870
Set, prop, sound and stage crew	537,061	609,053	325,514	410,829	1,240,140	1,493,308	2,102,715	2,513,190
Wardrobe	778	16		57,046	195,244	121,408	196,022	178,470
Artistic, creative and professional services	7,559	40,926	41,356	53,697	229,593	336,939	278,508	431,562
Theatre and other production	188,213	155,362	164,682	132,809	232,640	211,634	585,535	499,805
	3,331,146	3,475,036	4,063,011	4,167,132	3,111,465	3,511,729	10,505,622	11,153,897
Advertising								
Performances	263,397	504,851	196,199	253,074	210,625	295,592	670,221	1,053,517
Subscriptions	54,889	43,829	240,374	216,832	207,929	189,609	503,192	450,270
	318,286	548,680	436,573	469,906	418,554	485,201	1,173,413	1,503,787
Administration (Schedule 6)	305,107	323,400	493,300	467,124	559,398	682,062	1,357,805	1,472,586
Direct operating costs	3,954,539	4,347,116	4,992,884	5,104,162	4,089,417	4,678,992	13,036,840	14,130,270
Excess of expenses over revenue before unallocated costs	602,343	1,132,830	3,104,796	3,243,286	2,357,961	3,137,104	6,065,100	7,513,220
Support services (Schedule 6)							3,193,552	3,176,217
Excess of expenses over revenue							9,258,652	10,689,437

SCHEDULE OF REVENUE AND EXPENSES—RESTAURANTS FOR THE YEAR ENDED AUGUST 31, 1985

SCHEDULE 2

	1985	1984
	$	$
Revenue		
Food	1,529,787	1,473,339
Beverages	1,207,066	1,150,710
Tobacco	13,962	11,290
Other	43,465	21,737
	2,794,280	2,657,076
Expenses		
Cost of raw material sold		
Food	571,202	610,933
Beverages	374,714	378,787
Tobacco	12,533	12,965
	958,449	1,002,685
Gross margin	1,835,831	1,654,391
General and administration		
Salaries, wages and employee benefits	1,137,921	1,331,419
Supplies and equipment rental	204,480	199,495
Repairs and maintenance	75,051	35,545
Depreciation and amortization	65,719	52,599
Advertising and promotion	56,669	18,814
Furniture and equipment	19,479	29,559
Music and entertainment	18,180	21,252
Credit cards commission	17,962	21,096
Travel	5,909	3,016
Professional services	5,818	6,558
Other	17,256	14,322
	1,624,444	1,733,675
Total expenses	2,582,893	2,736,360
Excess of revenue over expenses (expenses over revenue)	211,387	(79,284)

SCHEDULE OF REVENUE AND EXPENSES—GARAGE FOR THE YEAR ENDED AUGUST 31, 1985

SCHEDULE 3

	1985	1984
	$	$
Revenue		
Parking	1,614,019	1,284,320
Other	370	3,837
	1,614,389	1,288,157
Expenses		
Salaries, wages and employee benefits	359,641	353,717
Supplies	30,874	25,416
Depreciation and amortization	6,662	5,055
Advertising	1,799	7,714
Repairs and maintenance	1,703	43,818
Furniture and equipment		4,594
Other	776	1,815
	401,455	442,129
Excess of revenue over expenses	1,212,934	846,028

NATIONAL ARTS CENTRE CORPORATION—*Concluded*

SCHEDULE OF EXPENSES— OPERATION OF THE BUILDINGS FOR THE YEAR ENDED AUGUST 31, 1985 SCHEDULE 4

	1985	1984
	$	$
Salaries, wages and employee benefits	1,632,909	1,596,799
Repairs and maintenance to buildings and equipment	1,048,002	923,136
Utilities	975,576	970,970
Depreciation and amortization	604,820	480,721
Professional services and expenses	86,040	129,134
Furniture and equipment	36,250	99,762
Laundry and dry cleaning	23,474	18,513
Travel and duty entertainment	6,817	6,547
Office expenses	4,588	3,930
Uniforms	1,201	12,117
Other	13,440	13,846
	4,433,117	4,255,475

SCHEDULE OF EXPENSES— ADMINISTRATIVE SERVICES FOR THE YEAR ENDED AUGUST 31, 1985 SCHEDULE 5

	1985	1984
	$	$
Salaries, wages and employee benefits	2,878,863	2,534,668
Office expenses	227,110	307,733
Office rent	155,005	152,435
Telecommunications	147,914	209,913
Professional services and expenses	118,136	70,116
Insurance	68,448	71,884
Repairs and maintenance	54,662	19,198
Trustees' fees and expenses	52,027	64,391
Travel and duty entertainment	46,749	54,485
Advertising and promotion	33,323	96,796
Training	15,744	26,439
Other	56,131	46,751
	3,854,112	3,654,809

SCHEDULE OF EXPENSES PERFORMING ARTS PROGRAMMES— ADMINISTRATION AND SUPPORT SERVICES FOR THE YEAR ENDED AUGUST 31, 1985 SCHEDULE 6

	Administration		Support Services	
	1985	1984	1985	1984
	$	$	$	$
Salaries, wages and employee benefits	1,193,661	1,280,888	2,036,219	2,027,075
Travel and duty entertainment	110,627	123,399	33,745	36,907
Office expenses	19,913	17,459	214,616	283,994
Professional services and expenses	14,994	10,422	91,529	73,647
Advertising and promotion			397,649	430,339
Commissions and service charges			203,843	98,691
Warehouse rent			140,356	132,202
Interest on obligation under capital lease			19,062	27,187
Other	18,610	40,418	56,533	66,175
	1,357,805	1,472,586	3,193,552	3,176,217

SCHEDULE OF REVENUE AND EXPENSES— BOUTIQUE FOR THE YEAR ENDED AUGUST 31, 1985 SCHEDULE 7

	1985 (12 months)	1984 (10 months)
	$	$
Revenue		
Sales	97,614	55,741
Expenses		
Cost of goods sold	51,217	34,616
Gross margin	46,397	21,125
General and administration		
Salaries, wages and employee benefits	39,719	44,117
Amortization	2,677	1,650
Advertising and display	2,602	5,279
Travel	1,276	1,716
Supplies and equipment rental	638	3,846
Furniture and equipment		4,450
Other	2,763	2,265
	49,675	63,323
Total expenses	100,892	97,939
Excess of expenses over revenue	3,278	42,198

SUMMARY PAGE

NATIONAL CAPITAL COMMISSION

MANDATE

To prepare plans for and assist in the development, conservation and improvement of the National Capital Region.

BACKGROUND

Funding from Canada to the Commission is usually budgetary funding. The Commission's own revenues meet about 15 per cent of its operating expenses.

CORPORATION DATA

HEAD OFFICE	161 Laurier Avenue West 14th Floor Ottawa, Ontario K1P 6J6
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Stewart McInnes, P.C., M.P.
DEPARTMENT	Public Works
DATE AND MEANS OF INCORPORATION	*National Capital Act* 1958 (R.S.C. 1970, C. N-3). Canada has owned this corporation since 1899 with the creation then of the Ottawa Improvement Commission (1899-1927) succeeded by the Federal District Commission (1927-1958).
CHIEF EXECUTIVE OFFICER AND CHAIRMAN	Jean Pigott
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	**1984-85 (restated)**	**1983-84**	**1982-83**
At the end of the period				
Total Assets*	306.5	332.8	411.6	389.3
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	26.3	31.1	31.1
Equity of Canada	284.4	281.4	344.5	330.1
Cash from Canada in the period				
— budgetary	73.4**	97.1	86.6	82.2
— non-budgetary	nil	nil	nil	nil

* The data series on Total Assets and on Equity reflect NCC's change in accounting practice by recording depreciation; this change has lowered the book value of much of its assets from "historic cost" value to "net of depreciation" value.

** Net of sales proceeds and surplus (together, $7.6 million) which were paid to Canada.

NATIONAL CAPITAL COMMISSION

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the National Capital Commission are the responsibility of management and have been approved by members of the Commission. The financial statements have been prepared by management in accordance with generally accepted accounting principles.

Management has developed and maintains books of account, records, financial and management controls and information systems. These are designed to provide reasonable assurance that assets are safeguarded and controlled and that transactions are in accordance with the Financial Administration Act and regulations as well as the National Capital Act and By-Laws of the Commission. Internal audits are conducted to assess these systems and practices.

The members of the Commission carry out their responsibilities for the financial statements principally through an Audit Committee which consists of members of the Commission only. The Audit Committee meets periodically with management as well as with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls and to review and discuss financial reporting matters. The external auditors have full access to the Audit Committee, with and without management being present.

The Commission's external auditor, the Auditor General of Canada, has examined the financial statements. He submits his report to the Minister of Public Works who is responsible for the National Capital Commission.

Jean E. Pigott
Chairman

John T. Denis
Chief Financial Officer

AUDITOR'S REPORT

THE HONOURABLE ROCH LA SALLE, P.C., M.P.
MINISTER OF PUBLIC WORKS

I have examined the balance sheet of the National Capital Commission as at March 31, 1986 and the statements of operations, equity and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Commission as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the accounting policies relating to land, buildings and equipment as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the National Capital Act, the articles and by-laws of the Commission.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 10, 1986

BALANCE SHEET AS AT MARCH 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Current		
Cash and short-term deposits	23,209	49,893
Accounts receivable		
Federal government departments and agencies	1,472	991
Tenants and others	731	776
Operating supplies, small tools and nursery stock	682	645
Prepaid expenses	2,138	1,479
	28,232	53,784
Land, buildings and equipment (Note 4)	278,282	279,031
	306,514	332,815

LIABILITIES	1986	1985
Current		
Accounts payable and accrued liabilities	14,894	17,387
Unsettled expropriations of property	1,342	1,609
Holdbacks and deposits from contractors and others	1,352	1,580
	17,588	20,576
Long-term		
Accrued employee termination benefits	4,496	4,537
Loans from Canada (Note 5)		26,309
	4,496	30,846
EQUITY		
Equity of Canada	284,430	281,393
	306,514	332,815

Approved by the Commission:

JEAN E. PIGOTT
Chairman

A. G. MARTIN
Commissioner

NATIONAL CAPITAL COMMISSION—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Expenses		
Planning and development	12,838	19,032
Real asset management	44,904	45,144
Public activities	9,949	10,005
Administration	15,308	16,439
	82,999	90,620
Revenues		
Property	8,822	8,184
Interest	1,921	2,959
Net gains on disposal of land, buildings and equipment	364	1,482
Other	1,522	1,233
	12,629	13,858
Net cost of operations	70,370	76,762
Parliamentary appropriations (Note 6)	81,026	97,055
Less: appropriations used to acquire land, buildings and equipment	11,462	17,341
	69,564	79,714
Excess (deficiency) of parliamentary appropriations over net cost of operations	(806)	2,952

STATEMENT OF EQUITY
FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Balance at beginning of year as previously reported	377,346	347,433
Adjustment to record accumulated depreciation to beginning of year (Note 3)	(95,953)	(86,333)
Balance as restated	281,393	261,100
Excess (deficiency) of parliamentary appropriations over net cost of operations	(806)	2,952
Parliamentary appropriations to acquire land, buildings and equipment	11,462	17,341
Payments of funds to Canada (Note 10 b)	(7,619)	
Balance at end of the year	284,430	281,393

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Operating activities		
Excess (deficiency) of parliamentary appropriations over net cost of operations	(806)	2,952
Items not involving cash		
Depreciation	9,316	9,620
Net gains on disposals of land, buildings and equipment	(364)	(1,482)
Increase (decrease) in accrued employee termination benefits	(41)	137
	8,105	11,227
Increase in non-cash operating working capital		
Accounts receivable	(436)	(59)
Inventories	(37)	42
Prepaid expenses	(659)	(433)
Accounts payable and accrued liabilities	(2,493)	(7,174)
Unsettled expropriations	(267)	(56)
Holdbacks and deposits	(228)	425
	(4,120)	(7,255)
Cash provided by operating activities	3,985	3,972
Investing activities		
Acquisition of land, buildings and equipment	(11,462)	(17,341)
Proceeds on disposal of land, buildings and equipment	3,259	5,457
Cash used in investing activities	(8,203)	(11,884)
Cash before financing	(4,218)	(7,912)
Financing activities		
Parliamentary appropriations to acquire land, buildings and equipment	11,462	17,341
Repayment of loans from Canada (Note 5)	(26,309)	(4,795)
Payment of funds to Canada (Note 10 b)	(7,619)	
Cash provided by (used in) financing activities	(22,466)	12,546
Increase (decrease) in cash	(26,684)	4,634
Cash and short-term deposits at beginning of year	49,893	45,259
Cash and short-term deposits at end of year	23,209	49,893

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986

1. Authority and objectives

The National Capital Commission was established by the National Capital Act, 1958. The Commission is a Crown corporation without share capital named in Schedule C, Part I to the Financial Administration Act and is an agent corporation. The objects and purposes of the Commission are to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance.

2. Significant accounting policies

(a) Depreciation

Depreciation is calculated on the straight-line method based on the estimated useful life of the assets, as follows:

Buildings	20 years
Roads and Bridges	25 years
Park Landscaping and improvement	25 years
Festival Equipment	5 years
Equipment	7 to 15 years
Vehicles	4 to 7 years
Equipment and vehicle attachments	10 years

NATIONAL CAPITAL COMMISSION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Continued*

(b) Operating supplies, small tools and nursery stock

Operating supplies and small tools are carried at cost. Nursery stock is valued at estimated replacement cost less an allowance for overhead, balling and packaging expenses.

(c) Pension plan

The Commission's employees participate in the Public Service Superannuation Plan, which is administered by the Government of Canada. Contributions to the Plan are made by both the employees and the Commission on an equal basis. Contributions with respect to current service are expensed in the current period.

(d) Employee termination benefits

Severance pay generally accrues to employees over their service period, and is payable on their separation or retirement. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees.

3. Changes in accounting policies

On September 1, 1984, the Government proclaimed amendments to the Financial Administration Act which, inter alia, require that the Commission prepare its financial statements in accordance with generally accepted accounting principles. The Commission has reviewed its accounting policies and systems and has altered them to comply with the requirements of the Act for the 1985-86 fiscal year. The changes include:

(i) depreciating buildings and equipment and reflecting the depreciation expense in the statement of operations. Previously no depreciation was recorded.

(ii) including gains and losses on disposal of land, buildings and equipment in the statement of operations. Previously they were credited or charged directly to equity.

(iii) excluding capitalized expenditures from the statement of operations where they were previously recorded.

The net effect of these changes is to reduce the excess of parliamentary appropriations over net cost of operations by $8.952 million (1985—$7.998 million).

4. Land, buildings and equipment

	1986			1985
	Historical Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	(in thousands of dollars)			
Land and Buildings				
Greenbelt	54,650	15,003	39,647	39,374
Parkways	70,581	30,281	40,300	40,225
Parks	44,690	12,866	31,824	30,565
Bridges and approaches	25,671	11,465	14,206	14,537
Historical sites	15,499	7,029	8,470	8,833
Recreational facilities	13,397	4,330	9,067	8,851
Rental properties	135,514	10,296	125,218	125,751
Unsettled expropriations	1,342		1,342	1,609
Administrative and service buildings	10,417	5,237	5,180	5,577
	371,761	96,507	275,254	275,322
Less provision for transfers at less than cost*	2,070		2,070	2,080
	369,691	96,507	273,184	273,242
Equipment				
Equipment	4,161	2,920	1,241	1,535
Furniture	5,647	3,373	2,274	3,036
Vehicles	3,230	2,235	995	766
Antiques and works of art	823	235	588	452
	13,861	8,763	5,098	5,789
	383,552	105,270	278,282	279,031

* Provision for transfers at less than cost pertains to property to be transferred in accordance with agreements with the Province of Quebec, for lands to be given free of charge for approaches to the MacDonald-Cartier Bridge and for the transfer for $1 of lands to be used as a right-of-way for Highway 550.

5. Loans from Canada

The Commission purchased certain real property out of funds advanced from the Consolidated Revenue Fund of Canada by way of loans authorized by Parliament, upon terms and conditions approved by the Governor-in-Council. Interest on those loans was payable semi-annually at rates varying from 5.0% to 9.0% and averaging 7.1% (1985—6.7%). Interest expense in the year ended March 31, 1986 amounted to $0.6 million (1985—$2.1 million). In July 1985, the Commission repaid all outstanding loans consisting of the principal, $26.3 million, and applicable interest due, $0.6 million. No further loan funds have been drawn from Canada.

NATIONAL CAPITAL COMMISSION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

6. Parliamentary appropriations

	1986				1985
	Operating	Capital	Grants and Contributions	Total	Total
	(in thousands of dollars)				
Expenditures	56,656	20,589	7,941	85,186	99,963
Revenue	11,881	748		12,629	13,858
Net expenditures	44,775	19,841	7,941	72,557	86,105
Parliamentary appropriations	43,636	30,945	6,445	81,026	97,055
Excess (deficiency) of Parliamentary appropriations over net expenditures	(1,139)	11,104	(1,496)	8,469	10,950
Items not requiring an outlay of funds					
Depreciation				(9,316)	(9,620)
Provision for employee benefits and vacation pay				41	(137)
Adjustment to restate 1985 expenditures on a basis comparable to 1986					1,759
Excess (deficiency) of Parliamentary appropriations over net cost of operations as reported				(806)	2,952

7. Commitments

(a) Subject to funds being authorized by Parliament, the Commission is committed to make contributions to other levels of government and other authorities as follows:

(i) Province of Quebec, one-half of the cost of a road network within the National Capital Region. The Commission's commitment is $131.7 million, of which $122.6 million has been expended.

(ii) Regional Municipality of Ottawa-Carleton, one-half of the cost of a new bridge across the Rideau River in the Hunt Club Road-Knoxdale Road Area. The Commission commitment is $7.0 million, of which $5.5 million has been expended.

(iii) The Outaouais Regional Community Transit Commission and the Ottawa-Carleton Regional Transit Commission, a total of $1.6 million annually to the end of 1988 to assist in the provision of interprovincial transit service in the National Capital Region.

(b) The Province of Quebec has expropriated certain lands at Laurier Park on behalf of the Commission. A sum of $0.4 million has been paid on account and the remaining amount of $1.25 million will be payable to the province in exchange for appropriate title documents.

(c) The Commission has entered into agreements for computing services and leases of equipment and office space. Annual payments under these agreements are approximately as follows:

	(in thousands of dollars)
1986-87	1,610
1987-88	243
1988-89	2
1989-90	
	1,855

8. Contingencies

(a) Claims

Claims and potential claims have or may be made against the Commission totalling approximately $26.1 million for alleged wrongful termination of certain agreements, for alleged damages and other matters but are not reflected in the accounts. The final outcome of these claims is not determinable. However, in the opinion of management and legal counsel, the position of the Commission is defensible and any payments required to settle these claims will not materially affect the financial position of the Commission. Settlements, if any, resulting from the resolution of these claims will be accounted for in the year in which the settlements occur.

(b) Agreement with the Province of Ontario

In 1961 the Commission entered into an agreement whereby the Province of Ontario established and maintains 2,654 hectares (6,557 acres) of forest. When the agreement expires in 2011, or is terminated, the Commission will reimburse the Province for the excess of expenses over revenues, or the Province will pay the Commission the excess of revenues over expenditures. At March 31, 1985, expenditures exceeded receipts by $1.0 million, and are not reflected in the accounts of the Commission.

(c) Exchange of land with Department of National Defence

In July 1985, the Commission, with the approval of the Governor in Council, agreed to exchange certain lands with the Department of National Defence. Although these transactions are to be undertaken at nominal amounts, the value of land to be received by the Commission exceeds the value of land to be transferred to the Department of National Defence by $2.8 million. A condition of the agreement stipulates that, should the Department of National Defence identify Commission-owned land which is surplus to the Commission's needs, the Commission is to transfer land up to a value of $2.8 million to the Department at nominal cost. This transaction is not reflected in the accounts of the Commission.

9. Subsequent events

In April 1986, the Commission, with the approval of the Governor in Council, agreed to exchange certain lands with the Department of Public Works. Part of the land which the Commission is to receive must be subsequently transferred to the Province of Quebec at nominal value under an agreement with the province to improve the road system in the Quebec portion of the National Capital Region. The potential cost of this transaction is $0.7 million and no provision for it has been made in the accounts of the Commission.

10. Other matters

(a) The Treasury Board of Canada has restricted the use of accumulated excess revenue over expenditures arising from operations and payments of grants and contributions. As of March 31, 1986, these restricted funds amounted to $4.6 million.

(b) During the year, the Commission paid to Canada $6.1 million which were in excess of the Commission's needs and $1.5 million which represented the proceeds of disposal of land.

(c) On March 26, 1986, the Treasury Board of Canada approved the transfers of properties at Laurier Park, Nepean Point and near Billings Bridge from the National Capital Commission to the Department of Public Works. The transfer is subject to Governor in Council approval.

11. Comparative figures

Certain comparative figures have been restated to conform to current presentation.

SUMMARY PAGE

NORTHERN CANADA POWER COMMISSION

MANDATE

To plan, construct and operate, on a self-sustaining basis, public utilities in the Northwest Territories and the Yukon Territory and, subject to approval of the Governor in Council, elsewhere in Canada. To maintain separate rate zones for each of the territories.

BACKGROUND

Since incorporation in 1948, NCPC has acquired or installed power generation and distribution facilities in Yukon and the Northwest Territories. Several mining companies and private utilities also supply electric power north of 60°. In 1982, NCPC's largest single industrial customer in the Yukon, Cyprus Anvil, suspended its mining operation at Faro. This mine was reopened in part during 1986 but since, in the interim, the Commission suffered financial losses on its Yukon operations, Canada waived interest payable on some of its loans. In contrast, operations in the Northwest Territories continue to yield a financial surplus due to relatively stable demand for power there.

In 1985, the federal government announced its intention to transfer responsibility for NCPC to the North.

CORPORATION DATA

HEAD OFFICE	7909 - 51st Avenue P.O. Box 5700 Station L Edmonton, Alberta T6C 4J8
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Bill McKnight, P.C., M.P.
DEPARTMENT	Indian Affairs and Northern Development
DATE AND MEANS OF INCORPORATION	In 1948, by the *Northwest Territories Power Commission Act* (amended as *Northern Canada Power Commission Act*, R.S.C. 1970, C. N-21)
CHIEF EXECUTIVE OFFICER AND CHAIRMAN	John W. Beaver
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85 (restated)	1983-84	1982-83
At the end of the year				
Total Assets	268.7	271.8	270.4	251.7
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	236.9	241.0	249.9	239.6
Equity of Canada	9.5	14.8	8.9	3.1
Cash from Canada in the period				
— budgetary	nil	nil	negl.	negl.
— non-budgetary	3.9	5.0	20.1,net	37.0

NORTHERN CANADA POWER COMMISSION

AUDITOR'S REPORT

THE HONOURABLE DAVID E. CROMBIE, P.C., M.P.
MINISTER OF INDIAN AFFAIRS AND NORTHERN DEVELOPMENT

I have examined the balance sheet of Northern Canada Power Commission as at March 31, 1986 and the statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Commission as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the accounting change for property and equipment in service as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Northern Canada Power Commission Act, and the by-laws of the Commission.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 5, 1986

BALANCE SHEET AS AT MARCH 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Property and equipment		
In service (Note 4)	221,226	228,806
Projects under construction	176	529
	221,402	229,335
Current		
Cash and term deposits	17,718	14,282
Accounts receivable		
Utilities	14,282	12,177
Other	771	2,390
Inventories		
Fuel and lubricants	11,570	11,239
Other supplies	2,982	2,382
	47,323	42,470
	268,725	271,805

LIABILITIES	1986	1985
Long-term		
Loans from Canada (Note 5)	224,839	231,336
Deferred credit		
Contributions in aid of construction	4,230	4,286
Current		
Due to Canada		
Overdue principal and related interest (Note 5)	9,583	
Current portion of long-term loans	10,214	9,653
Accounts payable	8,288	9,819
Employee leave and termination benefits	1,843	1,660
Contractors' holdbacks	189	251
	30,117	21,383
	259,186	257,005
EQUITY OF CANADA		
Contingency reserve	5,635	5,635
Retained earnings	3,904	9,165
	9,539	14,800
	268,725	271,805

Approved by the Commission:

JACK BEAVER
Chairman and Chief Executive Officer

HILDA WATSON
Member

NORTHERN CANADA POWER COMMISSION—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Revenues		
Sale of power	80,457	80,128
Sale of heat	6,825	6,601
Other	1,482	1,414
	88,764	88,143
Expenses		
Operations and maintenance	54,577	53,051
Depreciation	11,070	10,118
Engineering and general administration (Note 6)	6,854	5,956
	72,501	69,125
Income from operations	16,263	19,018
Interest (Note 7)	21,524	13,143
Net (loss) income for the year	(5,261)	5,875
Retained earnings		
At beginning of the year	9,165	8,925
Transfer to contingency reserve		(5,635)
At end of the year	3,904	9,165

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986	1985
Funds provided		
Operations		
Reported net income (adjusted for depreciation)	5,809	15,993
Overdue interest	7,762	
Decrease (increase) in trade balances	(1,896)	70
Increase in inventories	(931)	(223)
	10,744	15,840
Insurance proceeds Inuvik fire loss		6,864
Long-term loans from Canada	3,900	5,000
Disposals of property and equipment	847	453
Total funds provided	15,491	28,157
Funds applied		
Repayment of long-term debt	8,015	13,876
Additions to property and equipment	4,040	12,344
Total funds applied	12,055	26,220
Net funds provided	3,436	1,937
Funds at beginning of the year (cash and term deposits)	14,282	12,345
Funds at the end of the year	17,718	14,282

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1986

1. Authority and objective

The Northern Canada Power Commission, formerly the Northwest Territories Power Commission established in 1948, is a Crown corporation named in Schedule C, Part I, to the Financial Administration Act and operates under the Northern Canada Power Commission Act. The Commission is exempt from income tax.

The objective of the Commission is to provide utility services on a self-sustaining basis in the Northwest Territories, the Yukon Territory and, with the approval of the Governor in Council, elsewhere in Canada.

2. Accounting policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles considered to be appropriate in the circumstances and applied on a basis consistent with that of the preceding year. A summary of the significant accounting policies of the Commission is as follows:

Property and equipment

Property and equipment, including that donated to the Commission by Canada and others, are carried at cost less accumulated depreciation. Costs of additions, betterments and major renewals are capitalized. In addition to direct costs of goods and services, capital project costs include interest at prevailing rates on loan funds used to finance construction during the construction period and a share of engineering and general administration expense which is directly attributable to the projects.

Losses on disposal of property and equipment resulting from exceptional circumstances such as the disposal of assets which have not entered the production cycle, are written off to operations in the year that the losses are recognized. For normal retirements, the cost of property and equipment retired less disposal proceeds is charged or credited to accumulated depreciation with no gain or loss being reflected in operations.

Depreciation

Depreciation of property and equipment, financed by loans from Canada, in service prior to March 31, 1977, excluding the Head Office building, is calculated as an amount equivalent to the principal portion of the repayment of the associated loan. The loans are being repaid by the annuity method over the estimated economic life of the assets. Property and equipment, financed by loans from Canada and placed in service subsequent to March 31, 1977, the Head Office building, property and equipment purchased from internally generated funds, and donated plants and extensions, are depreciated on the straight-line method.

Depreciation rates for the various classes of assets are based on their estimated economic lives, which for the principal classes of assets are:

Hydroelectric plants	30 - 50 years
Diesel engines and associated equipment	10 - 15 years
Fuel storage equipment	20 years
Buildings	20 - 30 years
Heating systems	20 years
Transmission and distribution systems	20 - 30 years
Office and general equipment	5 - 15 years
Motor vehicles	4 years

Deferred credit

Deferred credit represents contributions from Canada and others to aid the construction and acquisition of property and equipment, and is amortized over the estimated economic lives of the respective donated property and equipment.

Inventories

Inventories are valued at average cost. Provision is made for any decline in value of slow-moving inventory.

Contingency reserve

Order in Council P.C. 1980-1989 of July 24, 1980 authorizes the Commission to establish a contingency reserve which is not to exceed $10 million to provide for extraordinary losses not covered by the rate structure. A contingency allowance based on 4% of utility sales was authorized for inclusion in the rate structure, to be used first to recover prior period deficits and then to build up a reserve. Transfers to the reserve are made annually of up to 4% of utility sales, or the net income for the year should it be less, until the authorized limit is reached, on a Commission wide basis.

NORTHERN CANADA POWER COMMISSION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Continued*

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these payments is recorded in the accounts as the benefits accrue to the employees.

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Commission. These contributions represent the total liability of the Commission and are recognized in the accounts on a current basis.

Grants in lieu of taxes

Grants in lieu of taxes are based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

3. Accounting change

Donated property and equipment which were previously written off against contributions, have been restated to better reflect the assets employed in an earning capacity. The comparative figures for March 1985 have been restated to be consistent with those for the year ended March 31, 1986.

4. Property and equipment in service

	1986	1985 (Restated)
	(in thousands of dollars)	
Electric power plants	245,984	242,957
Transmission and distribution systems	43,724	44,129
Other utilities	3,687	3,686
Staff accommodation	3,891	4,046
Warehouses, motor vehicles and general facilities	8,223	8,020
	305,509	302,838
Less: accumulated depreciation	84,283	74,032
	221,226	228,806

5. Loans from Canada

The Commission receives funds for capital expenditures by way of interest-bearing loans from Canada. Interest at prevailing rates is accrued during the course of construction of a project and added to the amount borrowed. The total loan, including accrued interest is repaid on terms and conditions as approved by Governor in Council.

The Commission also received a working capital loan of $7,500,000 in 1979. Terms and conditions provide for principal repayment by 10 equal annual instalments of $750,000 commencing on March 31, 1990. The loan is interest free but should any instalment become due and unpaid, interest at the then current rate is applicable until the date of payment.

At March 31, 1986, loans for capital expenditures carried interest at rates ranging from 4% to 15.625%, with a weighted average interest rate of 10.168% (1985—10.135%). Borrowings during the year were at an average interest rate of 10.5% (1985—11.625%).

Loans from Canada mature as follows:

	(in thousands of dollars)
1987	10,214
1988	10,652
1989	10,769
1990	11,320
1991	11,654
1992-2024	180,444
	235,053
Less: current portion	10,214
	224,839

As a result of past performance, the Commission expected an interest waiver due to the under-utilization of the Whitehorse hydro system in the 1985-86 fiscal year, which did not materialize. As at March 31, 1986, the Yukon Territory rate zone, incurred a loss of $9,751,000, and consequently the Commission was unable to pay principal and related interest totalling $9,583,000 which fell due, and remain unpaid.

The Commission expects the trend of losses to continue in the Yukon Territory rate zone in 1987. Furthermore, the Commission, pursuant to Section 3(9) of its Act, acquired in April 1986, additional generating facilities at Faro, Yukon Territory, at a price of $7,000,000 which is $5,929,000 above the estimated market value. With this loss, and the potential deficit in this rate zone, the Commission estimates that it will be unable to pay principal and related interest of $12,538,000 in 1987.

6. Engineering and general administration expense

Engineering and general administration expense is net of $287,000 (1985—$453,000) allocated to capital projects.

7. Interest

	1986	1985
	(in thousands of dollars)	
Interest on long-term loans	23,699	24,484
Income from term deposits and receivables	2,175	2,247
	21,524	22,237
Interest waiver		9,094
	21,524	13,143

8. Commitments

At March 31, 1986, the estimated committed cost to complete capital projects, including the generating facilities described in Note 5, is approximately $8,373,000 (1985—$741,000).

9. Segmentation

The Commission operates predominantly as one industry, that being the generation and distribution of electric power. Most expenses are directly attributable to the geographic rate zones, and common expenses are allocated among the rate zones. Identifiable assets are those assets that are used in the operation of each rate zone. Corporate assets are primarily the property in Edmonton, cash and term deposits.

NORTHERN CANADA POWER COMMISSION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

	1986	1985
	(in thousands of dollars)	
Revenues		
Northwest Territories	74,965	73,840
Yukon Territory	13,281	13,871
Field, B.C.	518	432
	88,764	88,143
Net income (loss)		
Northwest Territories	4,354	5,767
Yukon Territory	(9,751)	
Field, B.C.	136	108
	(5,261)	5,875
Identifiable assets		
Northwest Territories	127,601	130,978
Yukon Territory	121,685	125,151
Field, B.C.	176	184
Corporate	19,263	15,492
	268,725	271,805
Depreciation expense		
Northwest Territories	7,185	6,419
Yukon Territory	3,759	3,571
Field, B.C.	13	12
Corporate	113	116
	11,070	10,118
Capital expenditures		
Northwest Territories	3,454	11,491
Yukon Territory	523	834
Field, B.C.		
Corporate	63	19
	4,040	12,344

10. Devolution

On November 5, 1985, the Minister of Indian Affairs and Northern Development agreed to a Memorandum of Understanding with the territorial ministers representing the Governments of the Northwest Territories and the Yukon Territory, to transfer Northern Canada Power Commission to the territorial governments. The target date for completion of the process of devolution is March 31, 1987. The terms and conditions of the transfer had not been determined at the time of preparation of these financial statements.

11. Related party transactions

In addition to the transactions described in Notes 5 and 7, the Commission has significant transactions with the Government of Canada and its agencies, as well as with territorial and municipal governments of the Northwest Territories and the Yukon Territory. These transactions and resulting balances comprise:

	1986	1985
	(in thousands of dollars)	
Sale of power and heat	43,957	43,492
Purchase of fuel	8,956	8,932
Contributions to the Public Service Superannuation Plan	711	678
Treasury Bills and accrued interest	10,212	11,545
Accounts receivable	4,845	5,261
Accounts payable	2,203	3,015

Furthermore, the Commission receives audit and legal services without charge from the Office of the Auditor General of Canada and the Department of Justice of Canada.

SUMMARY PAGE

PACIFIC PILOTAGE AUTHORITY

MANDATE

To establish, operate, maintain and administer in the interests of safety an efficient pilotage service within designated waters in and around British Columbia.

BACKGROUND

Established in 1972, the Authority provides pilotage services and has the power to make regulations, subject to the approval of the Governor in Council, which establish compulsory pilotage areas; prescribe the ships/classes of ships that are subject to compulsory pilotage, the circumstances under which compulsory pilotage may be waived and pilotage tariffs; and which cover the licensing of pilots and issuance of pilotage certificates. Tariffs must be fair and reasonable and sufficient to permit the Authority to operate on a self-sustaining financial basis.

CORPORATION DATA

HEAD OFFICE	300-1199 West Hastings Street Vancouver, British Columbia V6E 4G9
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	Established pursuant to the *Pilotage Act* (S.C. 1970-71-72, C. 52) which was proclaimed to come into force on February 1, 1972.
CHIEF EXECUTIVE OFFICER AND CHAIRMAN	R.A. Hubber-Richard
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	1984	1983	1982
At the end of the year				
Total Assets	5.0	4.4	4.5	3.9
Obligations to the private sector	nil	nil	nil	0.3
Obligations to Canada	0.1	0.1	0.1	0.1
Equity of Canada	2.8	2.6	2.5	1.8
Cash from Canada for the year				
— budgetary	nil	nil	nil	nil
— non-budgetary	nil	nil	nil	nil

PACIFIC PILOTAGE AUTHORITY

AUDITOR'S REPORT

THE HONOURABLE DONALD MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

I have examined the balance sheet of Pacific Pilotage Authority as at December 31, 1985 and the statements of operations, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Pilotage Act and regulations and the by-laws of the Authority.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 12, 1986

BALANCE SHEET AS AT DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984	LIABILITIES	1985	1984
Current			Current		
Cash	1,499	805	Accounts payable and accrued liabilities	1,608	1,244
Accounts receivable	2,508	2,512	Obligations under capital lease (Note 4)	26	24
Prepaid expenses	29	82		1,634	1,268
	4,036	3,399	Long-term		
Property and equipment (Note 3)	927	988	Accrued employee termination benefits	443	416
			Obligations under capital lease (Note 4)	57	83
				500	499
				2,134	1,767
			EQUITY OF CANADA		
			Contributed capital	806	806
			Retained earnings	2,023	1,814
				2,829	2,620
	4,963	4,387		4,963	4,387

Approved by the Authority:

R. A. HUBBER-RICHARD
Chairman

M. FELLIS
Member

PACIFIC PILOTAGE AUTHORITY—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Revenues		
Pilotage charges	21,859	20,024
Interest and other income	90	97
	21,949	20,121
Expenses		
Contract pilots' fees	15,041	13,752
Operating costs of pilot boats	2,347	2,225
Transportation and travel	1,912	1,709
Staff salaries and benefits	1,017	905
Pilots' salaries and benefits	638	624
Depreciation	175	175
Rentals	137	78
Professional and special services	126	152
Computer software costs	125	249
Utilities, materials and supplies	99	69
Communications	77	64
Repairs and maintenance	28	13
Interest on capital lease	6	10
Other	12	1
	21,740	20,026
Net income for the year	209	95

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Appropriated		
Balance at beginning and end of the year	500	500
Unappropriated		
Balance at beginning of the year	1,314	1,219
Net income for the year	209	95
Balance at end of the year	1,523	1,314
	2,023	1,814

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Funds provided		
Operations		
Net income for the year	209	95
Items not affecting funds		
Depreciation	175	175
Employee termination benefits	27	(4)
Loss on sale of property and equipment	11	
	422	266
Funds applied		
Additions to property and equipment	125	114
Decrease in long-term obligations under capital lease	26	24
	151	138
Increase in working capital	271	128
Working capital at beginning of the year	2,131	2,003
Working capital at end of the year	2,402	2,131

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985

1. Nature of activities

The Pacific Pilotage Authority was established on February 1, 1972 pursuant to the Pilotage Act. The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act further provides that the tariffs of pilotage charges shall be fair and reasonable and consistent with providing a revenue, together with any revenue from other sources, sufficient to permit the Authority to operate on a self-sustaining financial basis.

Pilotage services on the Fraser River are provided by employee pilots and in other coastal waters under a contract with a local association of licensed pilots.

The Authority is not subject to any income taxes.

2. Significant accounting policies

Capital leases

Under the terms of certain lease agreements the Authority assumes the rights and obligations of ownership. These leases are treated as capital leases. An asset and an obligation are recorded at an amount equal to the market value of the asset at the beginning of the lease. The obligation is reduced each year by the principal portion of the lease payments and the interest portion is charged to expense.

Depreciation

Depreciation of property and equipment is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

	Years
Buildings	20
Pilot boats	20
Equipment	5 and 10
Leasehold improvements	7 and 15

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these payments is recorded in the accounts as the benefits accrue to the employees.

Contributed capital

Amounts representing the values assigned to property and equipment transferred from Canada in 1972 and the cost of any property and equipment financed from parliamentary appropriations are shown as contributed capital.

Retained earnings

Amounts are appropriated from time to time by the Authority to provide for extraordinary costs arising from renewal or acquisition of fixed assets and for contingencies.

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. These contributions represent the total liability of the Authority and are recognized in the accounts on a current basis.

PACIFIC PILOTAGE AUTHORITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

3. Property and equipment

	1985	1984
	(in thousands of dollars)	
Buildings	40	40
Pilot boats	1,142	1,142
Equipment	718	661
Leasehold improvements	129	98
	2,029	1,941
Accumulated depreciation	1,102	953
	927	988

The above assets include property and equipment under capital leases at a total value of $276,000 (1984—$276,000) less accumulated depreciation of $179,000 (1984—$166,000).

4. Obligations under capital lease

	1985	1984
	(in thousands of dollars)	
Total minimum payments under 8% lease agreement with Canada for pilot boat, due April 1988, payable in blended annual payments of $32,000	97	129
Amount representing interest	(14)	(22)
Balance of the obligations	83	107
Current portion	(26)	(24)
Long-term portion	57	83

Upon maturity of the lease, the Authority has the option to purchase the pilot boat for $1.

5. Commitments

The Authority has a long-term lease obligation for office accommodation aggregating $1,079,680 for the period from January 1, 1986 to December 31, 1999 at a base annual rent of $77,120. The obligation also calls for pro-rata share of operating costs estimated at $45,000 for 1986.

The Authority has an operating lease agreement for the services of a manned pilot boat with a guaranteed annual rental of $58,000 to 1990, plus operating expenses. There is an option to purchase the boat, at any time, at a price to be determined when the option is exercised.

SUMMARY PAGE

PÊCHERIES CANADA INC.

MANDATE

PCI is a holding company.

BACKGROUND

Incorporated in February 1984 and made a parent Crown corporation on February 27, 1985, PCI owns 87 per cent of the issued shares of the fish processing corporation, Pêcheries Cartier, Inc. After its reorganization and recapitalization as part of the federal government's initiatives in support of Atlantic fisheries, it was sold to Purdel, a cooperative, on April 18, 1986.

CORPORATION DATA

HEAD OFFICE	1155 Dorchester Blvd. W. Suite 3900 Montreal, Quebec H3B 3V2
STATUS	Sold to private sector interest.
DATE AND MEANS OF INCORPORATION	By letters patent, February 27, 1984, under the *Canada Business Corporations Act*

FINANCIAL SUMMARY (\$ million) The financial year ends December 31.

	January 1, 1986 to April 18, 1986	**January 1, 1985 to December 31, 1985**	**March 5, 1984 to December 31, 1984 (restated)**
At the end of the period			
Total Assets	11.6	15.9	19.7
Obligations to the private sector	nil	3.3	2.1
Obligations to Canada	nil	nil	nil
Shareholders equity	7.8	8.7	12.9
Cash from Canada in the period			
—budetgary	nil	nil	31.5
—non-budgetary	nil	nil	nil

PÊCHERIES CANADA INC.

(Since the audited financial statements are not available in English, here is the French version)

RAPPORT DES VÉRIFICATEURS

AUX ADMINISTRATEURS
PÊCHERIES CANADA INC.

Nous avons vérifié le bilan consolidé de Pêcheries Canada Inc. au 18 avril 1986, ainsi que les états consolidés périodiques des résultats et déficit et de l'évolution de la situation financière pour la période du 1er janvier au 18 avril 1986. Notre vérification a été effectuée conformément aux normes de vérification généralement reconnues et a comporté par conséquent les sondages et autres procédés que nous avons jugés nécessaires dans les circonstances.

À notre avis, ces états financiers consolidés périodiques présentent fidèlement la situation financière de la société au 18 avril 1986, ainsi que les résultats de son exploitation et l'évolution de sa situation financière pour la période terminée à cette date selon les principes comptables généralement reconnus, appliqués de la même manière qu'au cours de l'exercice précédent.

Comptables agréés
Raymond, Chabot, Martin, Paré & Associés
Coopers & Lybrand

Montréal, Canada
le 21 mai 1986

BILAN CONSOLIDÉ AU 18 AVRIL 1986

ACTIF	1986
	$
Actif à court terme	
Encaisse	256,185
Débiteurs (note 3)	780,127
Impôts sur le revenu à recevoir	309,644
Stocks (note 4)	282,707
Frais payés d'avance	359,454
Encaissements sur les placements	978,724
	2,966,841
Placements	
Prêts hypothécaires (note 5)	580,223
Participations et avances dans une filiale et une compagnie satellite (note 6)	816,216
	1,396,439
Encaissements disponibles à court terme	978,724
	417,715
Immobilisations (note 7)	
Coût	11,788,608
Amortissement accumulé	3,674,529
	8,114,079
Autres postes	
Participations et dépôts, au coût	107,030
	11,605,665

PASSIF	1986
	$
Passif à court terme	
Comptes fournisseurs et frais courus	466,624
Emprunt d'un organisme gouvernemental, 13%, sans modalités de remboursement	104,490
Crédits reportés	268,761
Participations minoritaires	3,000,000
	3,839,875
AVOIR DES ACTIONNAIRES	
Capital-actions (note 8)	31,499,900
Déficit	23,734,110
	7,765,790
	11,605,665

Les notes complémentaires font partie intégrante des états financiers consolidés périodiques.

PÊCHERIES CANADA INC.—*Continued*

RÉSULTATS ET DÉFICIT CONSOLIDÉS POUR LA PÉRIODE DU 1er JANVIER AU 18 AVRIL 1986

	1986
	$
Ventes	1,010,392
Coût des marchandises vendues	
Stocks au début	1,160,691
Coût de fabrication	409,786
	1,570,477
Stocks à la fin	282,707
	1,287,770
Perte brute	277,378
Frais de vente	137,651
Frais d'administration	517,805
Frais d'opérations	77,676
Frais financiers (dont $3,443 sur la dette à long terme)	71,125
	804,257
Autres revenus	111,833
	692,424
Perte avant participation dans le bénéfice net d'une compagnie satellite	969,802
Participation dans le bénéfice net d'une compagnie satellite	18,000
Perte avant postes extraordinaires	951,802
Postes extraordinaires	
Perte au titre des activités abandonnées	42,207
Perte dans une filiale à la suite de l'abandon de ses activités	54,286
Gain relatif à l'ancienne Fédération des pêcheurs unis du Québec	(109,458)
	(12,965)
Perte nette	938,837
Déficit au début de la période	22,795,273
Déficit à la fin de la période	23,734,110

Les notes complémentaires font partie intégrante des états financiers consolidés périodiques.

ÉVOLUTION DE LA SITUATION FINANCIÈRE CONSOLIDÉE POUR LA PÉRIODE DU 1er JANVIER AU 18 AVRIL 1986

	1986
	$
Exploitation	
Perte avant postes extraordinaires	(951,802)
Éléments hors caisse	
Profit sur la vente d'immobilisations	(5,411)
Amortissement des immobilisations	15,966
Radiation d'immobilisations	14,401
Participation dans le bénéfice net d'une compagnie satellite	(18,000)
Éléments du fonds de roulement	4,500,430
Provenance des liquidités relatives aux opérations normales	3,555,584
Gain relatif à l'ancienne Fédération des pêcheurs unis du Québec	109,458
Perte au titre des activités abandonnées	(42,207)
Provenance des liquidités	3,622,835
Investissement	
Encaissements sur les placements	55
Immobilisations	(13,095)
Avances à une filiale	(129,793)
Avances à une compagnie satellite	(33,547)
Cession d'immobilisations	30,581
Diminution des autres postes	21,396
Augmentation des crédits reportés	1,020
Utilisation des liquidités	(123,383)
Augmentation de la trésorerie	3,499,452
Trésorerie au début	(3,243,267)
Trésorerie à la fin	256,185

Les notes complémentaires font partie intégrante des états financiers consolidés périodiques.

NOTES COMPLÉMENTAIRES AU 18 AVRIL 1986

1. Statut et nature des activités

Constituée en vertu de la Loi sur les sociétés commerciales canadiennes, Pêcheries Canada Inc. est assujettie à la Loi sur l'administration financière et, en plus d'être un agent de Sa Majesté du Chef du Canada, elle est la propriété exclusive de la Couronne du Canada.

Depuis sa constitution, la société a comme but principal de détenir les actions de Pêcheries Cartier Inc.

2. Énoncé des conventions comptables

Principes de consolidation

Les états financiers consolidés périodiques incluent les comptes de la compagnie et de sa filiale Pêcheries Cartier Inc.

Stocks

Les stocks sont évalués au moindre du coût et de valeur de réalisation nette, le coût étant déterminé selon la méthode du coût moyen.

Immobilisations

Les immobilisations sont présentées à leur coût d'origine et sont amorties en fonction de leur durée probable d'utilisation selon la méthode de l'amortissement linéaire aux taux annuels suivants:

Bâtiments et pavages	2½% à 10%
Matériel d'usine	12½% à 20%
Matériel, mobilier, agencements et améliorations locatives	20%
Matériel roulant	30%

Les immobilisations relatives aux usines n'ont pas été amorties pour la période du 1er janvier au 18 avril 1986 parce que la saison de pêche n'avait pas encore débuté.

Crédits reportés

Les montants relatifs aux crédits d'impôt à l'investissement remboursables sont imputés au compte crédits reportés et sont amortis au même rythme que l'amortissement des immobilisations pour lesquelles les crédits d'impôt à l'investissement ont été comptabilisés.

Conversion des devises étrangères

Les comptes en devises étrangères sont convertis en dollars canadiens selon la méthode temporelle, comme suit:

L'encaisse, les comptes clients et les comptes fournisseurs sont convertis au taux de change en vigueur à la date du bilan;

Les ventes et les achats sont convertis au taux de change en vigueur aux dates de transaction.

3. Débiteurs

	$
Comptes clients (dont $27,711 d'une compagnie satellite)	116,787
Avances aux pêcheurs	57,249
Sommes à recevoir relatives à l'ancienne Fédération des pêcheurs unis du Québec	
Syndic	538,291
Autres débiteurs	67,800
	780,127

Certaines avances aux pêcheurs sont garanties par des hypothèques maritimes de premier et de deuxième rang.

4. Stocks

	$
Produits finis	7,269
Fournitures et emballage	183,056
Autres	92,382
	282,707

PÊCHERIES CANADA INC.—*Continued*

NOTES COMPLÉMENTAIRES
AU 18 AVRIL 1986—*Fin*

5. Prêts hypothécaires

	$
Prêt hypothécaire de premier rang d'une filiale en propriété exclusive, sans intérêt, encaissable en 1986	377,200
Prêt hypothécaire de premier rang, taux d'intérêt variable, échéant en 1989	203,023
	580,223

6. Participations et avances dans une filiale et une compagnie satellite

	Degré de propriété	Coût	Valeur de consolidation	Avances	Total
	%	$	$	$	$
Filiale					
Chantier maritime de Gaspé Inc.[(a)]	100	432,915	1	567,059	567,060[(b)]
Compagnie satellite					
Pêcheries Atlantiques du Québec Inc.	49	106,990	192,020	57,136	249,156
			192,021	624,195	816,216

a) Les états financiers n'ont pas été consolidés puisque la filiale a cessé ses activités et que ses éléments d'actif feront l'objet d'une vente au cours de l'année 1986. Le coût du placement dans la filiale et l'avance à cette même filiale ont respectivement fait l'objet d'une réduction de $432,914 et de $979,286.

b) Encaissable en 1986.

7. Immobilisations

	Coût	Valeur comptable nette
	$	$
Terrains	66,438	66,438
Bâtiments et pavages	5,749,651	4,690,131
Matériel d'usine	5,121,577	2,913,674
Matériel, mobilier et agencements de bureau	208,759	108,821
Matériel roulant	355,494	63,586
Améliorations locatives	35,935	20,675
Valeur nette estimative des installations abandonnées	250,754	250,754
	11,788,608	8,114,079

8. Capital-actions

	$
Autorisé	
Nombre illimité d'actions ordinaires sans valeur nominale	
Émis et payé	
2,879,999 actions	31,499,900

9. Emprunts de banque

Les créances et les stocks sont affectés à la garantie d'emprunts de banque éventuels.

10. Impôts sur le revenu

L'avantage fiscal provenant des pertes comptables n'est pas inscrit aux états financiers. Ces pertes susceptibles de réduire les impôts futurs s'élèvent à environ $20,953,000 ($8,809,000 au provincial) et se détaillent comme suit:

Montant des pertes fiscales à reporter dans les délais suivants:

	Fédéral	Provincial
	$	$
1987	397,000	397,000
1990	798,000	798,000
1991	5,381,000	341,000
1992	5,108,000	
1993	1,009,000	1,009,000
	12,693,000	2,545,000
Montant des écarts temporaires à reporter sur une période indéterminée	7,900,000	6,264,000
	20,593,000	8,809,000

La société bénéficie aussi de pertes en capital pour lesquelles l'avantage fiscal y afférent n'a pas été comptabilisé. Ces pertes au montant de $1,412,000 pourront être appliquées contre des gains en capital éventuels.

De plus, la société dispose de crédits d'impôt à l'investissement de $4,255,000 dont elle pourra se prévaloir dans les délais suivants:

	$
1986	345,000
1987	80,000
1988	112,000
1991	3,051,000
1992	662,000
1993	5,000
	4,255,000

11. Contrats à long terme de location-exploitation

Les loyers annuels minimums à verser en vertu de baux à long terme sur des propriétés louées s'établissent comme suit:

	$
Période du 19 avril au 31 décembre 1986	24,022
Exercices se terminant le 31 décembre	
1987	41,841
1988	38,460
1989	38,460
	142,783

12. Réclamations

La société fait présentement l'objet de réclamations pour un montant total approximatif de $700,000 à la suite du congédiement d'anciens employés. Selon les administrateurs de la société, il est impossible de déterminer les montants qui pourront faire l'objet de règlements de ces réclamations. Tous les montants pouvant résulter de ces réclamations seront absorbés par les actionnaires et un tiers.

13. Évaluation actuarielle

Conformément à la Loi des régimes supplémentaires de rentes, une évaluation actuarielle du Régime de rentes du personnel cadre et administratif de Pêcheries Cartier Inc. doit être effectuée en date du 31 décembre 1985. Cependant, comme cette évaluation actuarielle est présentement en cours, il est impossible de déterminer si l'actif net au 31 décembre 1985 est suffisant pour pourvoir aux obligations du régime. Toutefois, la société s'est engagée à combler tout déficit déterminé par les actuaires du régime.

PÊCHERIES CANADA INC.—*Continued*

AUDITORS' REPORT

TO THE SHAREHOLDERS
PÊCHERIES CANADA INC.

We have examined the consolidated balance sheet of Pêcheries Canada Inc. as at December 31, 1985 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions of the Company that have come under our notice in the course of our examination of the financial statements were, in all material respects, in accordance with the Financial Administration Act and regulations thereto, the charter and bylaws of the Company and any directive given to the Company.

The accounts for the year ended December 31, 1984, shown for comparative purposes, arise from financial statements which were examined by other auditors.

Raymond, Chabot, Martin, Paré & Associés
Chartered Accountants

Montréal, Canada
February 21, 1986

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1985

ASSETS	1985	1984
	$	$
Current Assets		
Cash	48,733	37,364
Accounts receivable (Note 3)	4,660,003	4,141,737
Income taxes receivable	331,151	752,814
Inventories (Note 4)	1,160,691	2,664,787
Prepaid expenses	98,742	147,728
Instalments on mortgages receivable	34,519	346,513
	6,333,839	8,090,943
Investments		
Mortgages receivable (Note 5)	580,278	926,791
Investments in and advances to a subsidiary and a company subject to significant influence (Note 6)	689,162	1,504,735
	1,269,440	2,431,526
Instalments maturing within one year	34,519	346,513
	1,234,921	2,085,013
Fixed Assets (Note 7)		
Cost	11,853,503	10,162,350
Accumulated depreciation	3,696,982	2,324,783
	8,156,521	7,837,567
Other Assets (Note 8)	128,426	1,675,473
	15,853,707	19,688,996

LIABILITIES	1985	1984
	$	$
Current Liabilities		
Bank loans (Note 9)	3,292,000	2,066,331
Accounts payable and accrued liabilities	484,849	1,615,536
	3,776,849	3,681,867
Government Loan, 10.2%, without repayment terms	104,490	
Deferred Credits	267,741	145,299
Minority Interests	3,000,000	3,000,000
	3,372,231	3,145,299
	7,149,080	6,827,166
SHAREHOLDERS' EQUITY		
Capital Stock (Note 10)	31,499,900	28,500,000
Deficit	(22,795,273)	(15,638,170)
	8,704,627	12,861,830
	15,853,707	19,688,996

The accompanying notes are an integral part of the consolidated financial statements.

PÊCHERIES CANADA INC.—*Continued*

CONSOLIDATED DEFICIT
YEAR ENDED DECEMBER 31, 1985

	1985	1984
	$	$
Balance, beginning of year		
As previously reported	16,245,685	
Prior period adjustment (Note 11)	(607,515)	
As restated	15,638,170	
Net Loss	7,157,103	15,638,170
Balance, end of year	22,795,273	15,638,170

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED EARNINGS
YEAR ENDED DECEMBER 31, 1985

	1985	1984
	$	$
Sales	15,521,760	10,987,298
Cost of Sales		
Inventories, beginning of year	2,664,787	
Manufacturing cost	17,717,278	15,642,761
	20,382,065	15,642,761
Inventories, end of year	1,160,691	2,664,787
	19,221,374	12,977,974
Gross loss	3,699,614	1,990,676
Selling Expenses	505,476	408,845
Administrative Expenses	1,568,746	1,463,644
Operating Expenses	595,146	5,087,078
Financial Expenses (of which $10,647 relate to long-term debt)	378,049	103,714
Amortization of Goodwill	152,022	152,020
	3,199,439	7,215,301
Other Income	316,340	786,095
	2,883,099	6,429,206
Loss before share in earnings of a subsidiary and a company subject to significant influence	6,582,713	8,419,882
Subsidiary	641,230	325,250
Company Subject to Significant Influence	(36,954)	(69,458)
	604,276	255,792
Loss before extraordinary items	7,186,989	8,675,674
Extraordinary Items (Note 12)	(29,886)	6,962,496
Net loss	7,157,103	15,638,170

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1985

	1985	1984
	$	$
Source of Funds		
Instalments on mortgages receivable	34,519	
Proceeds on sale of shares of a company subject to significant influence	76,097	
Proceeds from sale of fixed assets	277,831	1,074,328
Decrease in other assets	8,851	
Long-term loans	104,490	
Deferred credits	165,702	145,299
Minority interests		3,000,000
Issue of class "A" shares	2,999,900	28,500,000
Gain on actuarial surplus of a former pension fund	1,888,600	
	5,555,990	32,719,627
Application of Funds		
Funds used in operations (Note 16)	4,795,707	7,329,639
Loss on discontinued operations	236,499	1,325,966
Incremental costs relative to acquisitions		2,743,579
Total assets acquired from wound-up subsidiaries		4,391,279
Mortgages receivable		566,100
Additions to fixed assets	2,099,581	11,273,999
Other assets		38,867
Advances to a subsidiary and a company subject to significant influence	276,289	641,122
	7,408,076	28,310,551
Increase (Decrease) in Funds	(1,852,086)	4,409,076
Working Capital, beginning of year		
As previously reported	3,656,262	
Prior period adjustment (Note 12)	752,814	
As restated	4,409,076	
Working Capital, end of year	2,556,990	4,409,076

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1985

1. Governing Statute and Nature of Operations

Pêcheries Canada Inc., incorporated under the Canada Business Corporations Act, is subject to the Financial Administration Act and, in addition to being an agent for Her Majesty in Right of Canada, is wholly-owned by the Crown of Canada.

Since its incorporation, the Company has as principal objective to hold the shares of Cartier Fisheries Inc. which exercises its activity in the province of Québec where it is mostly an important processor and an international distributor of fishery products.

2. Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary Cartier Fisheries Inc. They do not include the accounts of the subsidiary Chantier Maritime de Gaspé Inc. because it ceased its operations during the year. Moreover, the investment in a company subject to significant influence Pêcheries Atlantiques du Québec Inc. (previously a subsidiary) has been recorded at equity value.

For comparison purposes, the accounts of these subsidiaries have not been consolidated in 1984.

Inventories

Finished goods are valued at the lower of cost and net realizable value. Cost is determined by the average cost method for inventories at the end of the year and the first in, first out method for inventories at the beginning of the year.

PÊCHERIES CANADA INC.—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1985—*Continued*

There is no significant effect on the earnings of the year due to the change in method.

Fixed Assets

Fixed assets are recorded at historical cost and depreciated over their estimated useful lives according to the straight-line method at the following annual rates:

Buildings and paving	2½% to 10%
Plant equipment	12½% to 20%
Office equipment, furniture, fixtures and leasehold improvements	20%
Automotive equipment	30%

Deferred Credits

Amounts relative to refundable investment tax credits are recorded as deferred credits and are amortized on the same basis as depreciation of fixed assets for which the investment tax credits were recorded.

Foreign Currency Translation

Accounts in foreign currencies are translated into Canadian dollars under the temporal method as follows:

Cash, accounts receivable and accounts payable are translated at the exchange rate in effect at the balance sheet date;

Sales and purchases are translated at rates in effect at transaction dates.

3. Accounts Receivable

	1985	1984
	$	$
Trade accounts (of which $212,763 are from a company subject to significant influence; $317,157 in 1984)	1,826,266	3,302,161
Advances to fishermen	204,103	205,303
Amounts receivable relative to the former Fédération des pêcheurs unis du Québec		
Trustee	373,920	364,787
Pension fund	1,964,400	
Others	291,314	269,486
	4,660,003	4,141,737

Certain advances to fishermen are secured by first and second marine mortgages.

4. Inventories

	1985	1984
	$	$
Raw materials		216,358
Finished goods	891,684	1,980,561
Supplies and packaging materials	209,167	347,906
Others	59,840	119,962
	1,160,691	2,664,787

5. Mortgages Receivable

	1985	1984
	$	$
First mortgage receivable from a wholly-owned subsidiary, without interest or repayment terms	377,200	377,200
First mortgage receivable, varying interest rates, maturing in 1989	203,078	236,591
Mortgage receivable, 13%		313,000
	580,278	926,791

PÊCHERIES CANADA INC.—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Continued*

6. Investments in and Advances to a Subsidiary and a Company Subject to Significant Influence

	1985					1984				
	Percentage of Ownership	Cost	Equity Value	Advances	Total	Percentage of Ownership	Cost	Equity Value	Advances	Total
	%	$	$	$	$	%	$	$ (a)	$	$
Subsidiary										
Chantier maritime de Gaspé Inc.	100	432,915	(924,999)	1,416,552	491,553	100	432,915	104,789	1,163,852	1,268,641
Company subject to significant influence (subsidiary in 1984)										
Pêcheries Atlantiques du Québec Inc.	49	106,990	174,020	23,589	197,609	75	163,760	236,094		236,094
			(750,979)	1,440,141	689,162			340,883	1,163,852	1,504,735

(a) The equity value at December 31, 1984 includes goodwill on consolidation of $406,041 which has been written-off on December 31, 1985.

7. Fixed Assets

	1985		1984	
	Cost	Net Book Value	Cost	Net Book Value
	$	$	$	$
Land	66,438	66,438	66,438	66,438
Buildings and paving	5,749,651	4,690,131	5,551,293	4,826,363
Plant equipment	5,111,377	2,903,474	3,484,310	2,146,331
Office equipment, furniture and fixtures	207,820	120,003	129,794	90,588
Automotive equipment	413,528	88,433	412,474	195,668
Leasehold improvements	53,935	37,288	29,309	23,447
Estimated net realizable value of discontinued facilities	250,754	250,754	488,732	488,732
	11,853,503	8,156,521	10,162,350	7,837,567

8. Other Assets

	1985	1984
	$	$
Goodwill		1,368,196
Fishing permits		170,000
Investments and deposits, at cost	128,426	137,277
	128,426	1,675,473

9. Bank Loans

The bank loans are secured by an assignment of book debts and inventories.

10. Capital Stock

Authorized

Unlimited number of shares without par value

	1985	1984
	$	$
Issued and fully paid 2,879,999 shares (of which 29,999 were issued for $2,999,900 in cash during the year)	31,499,900	28,500,000

11. Prior Period Adjustment

During the year, the Company received an amount of $752,814 as a refund of investment tax credits for investments made during the preceding year. The amount of $752,814 has been recorded as a prior period adjustment and resulted in the following changes in the financial statement items as at December 31, 1984:

	$
Balance Sheet	
Increase in income taxes receivable	752,814
Increase in deferred credits	(145,299)
Increase in retained earnings	607,515
Earnings	
Decrease in operating expenses	607,515

12. Extraordinary Items

	1985	1984
	$	$
Loss from discontinued operations	236,499	1,325,966
Gain on actuarial surplus of a former pension fund, less related expenses of $75,800 (Note 3)	(1,888,600)	
Write-off of goodwill	1,216,174	
Write-off of goodwill of consolidation	406,041	
Loss on discontinuance and disposal of plants		2,892,951
Incremental costs relative to acquisitions of fixed assets of the former Fédération des pêcheurs unis du Québec		2,743,579
	(29,886)	6,962,496

PÊCHERIES CANADA INC.—*Concluded*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

13. Long-Term Leases

The Company has a commitment to pay a total amount of $253,200 for the rental of buildings under long-term leases expiring in 1989.

The rental expense for the year ended December 31, 1985 aggregates $63,300 ($60,000 in 1984). The lease payments for the next four years are $63,300 per annum.

14. Transactions with a Company Subject to Significant Influence

During the year, sales concluded with a company subject to significant influence aggregate $493,574 ($238,480 in 1984). These sales represent approximately 3% of the Company's sales.

15. Income Taxes

The tax benefit resulting from the losses carry-forwards is not recorded in the financial statements. These losses available to reduce future income taxes, aggregating $16,922,487, are detailed as follows:

	$
Amount of the losses carry-forwards for tax purposes expiring within the following years:	
1987	397,229
1990	798,047
1991	5,381,275
1992	6,484,288
	13,060,839
Amount of the timing differences to be deferred over an indefinite period	3,861,648
	16,922,487

In addition, the Company has investment tax credits of $4,251,121 which are available as follows:

	$
1986	345,567
1987	79,639
1988	111,895
1991	3,051,212
1992	662,808
	4,251,121

16. Funds Used in Operations

	1985 $	1984 $
Loss before extraordinary items	7,186,989	8,675,674
Items not affecting funds		
Loss on sale of shares of a company subject to significant influence	(5,448)	
Profit (loss) on sale of fixed assets	18,672	(121,398)
Depreciation	(1,521,468)	(968,845)
Amortization of goodwill	(152,022)	
Write-off of a fishing permit	(170,000)	
Amortization of deferred credits	43,260	
Share in earnings of a subsidiary and a company subject to significant influence	(604,276)	(255,792)
	4,795,707	7,329,639

17. Contingency

As at December 31, 1985, the Company is contingently liable for the endorsement of a bank loan of a subsidiary amounting to $300,000. As at that date, the bank loan amounted to $245,000. Any payment which might result from this endorsement would be charged to the earnings of the period in which the settlement occurs.

18. Actuarial Evaluation

According to the Supplementary Pension Plans Act, an actuarial evaluation of the pension plan of officers and administrative personnel of Cartier Fisheries Inc. must be carried out as at December 31, 1985. However, since this actuarial evaluation is presently underway, it is impossible to determine if net assets as at December 31, 1985 are sufficient to cover the liabilities of the plan. Nevertheless, the Company has a commitment to cover any deficit as determined by the actuaries of the plan.

Any payment which might result from this contingency would be charged to the earnings of the period in which the settlement occurs.

19. Comparative Figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

SUMMARY PAGE

PETRO-CANADA

MANDATE

To explore for, research, develop, produce and distribute hydrocarbons and other types of fuel and energy, and to engage or invest in ventures related thereto.

BACKGROUND

The Corporation has grown in 10 years of operation to employ 10,600 people and has $8.8 billion in total assets. Its growth was principally from its acquisition, in succession, of Atlantic Richfield, Pacific Petroleums, Petrofina, BP Canada and Gulf Canada rights and other assets but, as well, major new investments have been made by the Corporation in frontier drilling. It is a significant share-owner in the promising Hibernia offshore field and is a participant in Beaufort Sea and in Venture (Nova Scotia) fields, and in the Syncrude tar-sands operation.

CORPORATION DATA

HEAD OFFICE	P.O. Box 2844 1000, 407 - 2nd Street, S.W. Calgary, Alberta T2P 3E3
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Marcel Masse, P.C., M.P.
DEPARTMENT	Energy, Mines and Resources
DATE AND MEANS OF INCORPORATION	By the *Petro-Canada Act* (S.C. 1975, C. 61) proclaimed July 30, 1975.
CHIEF EXECUTIVE OFFICER AND CHAIRMAN	Wilbert H. Hopper
AUDITOR	Arthur Anderson and Co. Peat, Marwick, Mitchell and Co.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	1984 (restated)	1983	1982
At the end of the year				
Total Assets	8,846	8,966	8,239	7,552
Obligations to the private sector	2,045	1,469	1,583	1,795
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	3,642	4,479	4,010	3,342
Cash from Canada in the year				
— budgetary	(50)*	nil	nil	nil
— non-budgetary	nil	425	642	1,306

* Dividend to Canada

PETRO-CANADA

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances. Management is responsible for the other information in the Annual Report, which is consistent, where applicable, with that contained in the financial statements. Management is also responsible for installing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced. The Corporation has an internal audit department whose functions include reviewing the systems of internal control to ensure that they are adequate and functioning properly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board, a majority of which is composed of directors who are not employees of the Corporation.

The Committee meets with management, the internal auditors and the external auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements.

The external auditors conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of the Corporation's system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board.

AUDITORS' REPORT

TO THE HONOURABLE PAT CARNEY, P.C., M.P.
MINISTER
ENERGY, MINES AND RESOURCES CANADA
HOUSE OF COMMONS

We have examined the consolidated balance sheet of Petro-Canada as at December 31, 1985 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for investment tax credits as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions of the Corporation and its consolidated wholly-owned subsidiaries that have come to our notice in the course of our examination of the consolidated financial statements of Petro-Canada were, in all significant respects, in accordance with the Financial Administration Act and the regulations thereto, the charter and by-laws of the Corporation and its consolidated wholly-owned subsidiaries and any directives given to the Corporation.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Arthur Andersen & Co.
Chartered Accountants

Calgary, Canada
February 20, 1986

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984 (Restated)
Current Assets		
Cash and short-term deposits		32,819
Accounts receivable	1,307,339	836,854
Inventories (Note 4)	1,109,451	845,715
Income taxes recoverable	10,413	23,036
Deposits and prepaid expenses	33,157	21,394
	2,460,360	1,759,818
Investments (Note 5)	290,843	594,234
Property, Plant and Equipment, net (Note 6)	6,030,165	6,513,940
Deferred Charges (Note 7)	64,724	98,172
	8,846,092	8,966,164

LIABILITIES AND SHAREHOLDER'S EQUITY	1985	1984 (Restated)
Current Liabilities		
Outstanding cheques less cash	22,344	
Short-term notes payable	531,539	
Accounts payable and accrued liabilities	1,489,160	807,913
Current portion of long-term debt	20,430	47,102
	2,063,473	855,015
Long-Term Liabilities	197,516	
Long-Term Debt (Note 8)	269,131	109,947
Advances on Future Natural Gas Deliveries	145,488	173,436
Minority Interest in Subsidiaries		419,813
Deferred Income Taxes	1,303,901	1,617,372
Redeemable Preferred Shares (Note 9)	1,224,217	1,312,080
Capital (Note 10)	4,161,072	4,161,072
Contributed Surplus		62,461
Retained Earnings (Deficit)	(518,706)	254,968
	3,642,366	4,478,501
	8,846,092	8,966,164

Approved on behalf of the Board:

W. H. HOPPER
Director

W. McBURNEY ELLIOTT
Director

PETRO-CANADA—*Continued*

CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1985 (in thousands of dollars)

	1985	1984 (Restated)
Revenue		
Operating	5,300,097	4,881,293
Investment and other income	80,834	107,470
	5,380,931	4,988,763
Expenses		
Crude oil and product purchases	2,901,164	2,780,170
Producing and refining	552,746	475,331
Marketing, general and administrative	552,548	403,170
Taxes other than income taxes (Note 11)	427,576	343,784
Depreciation, depletion and amortization	410,190	362,994
Interest on long-term debt	24,264	11,324
	4,868,488	4,376,773
Earnings before Undernoted Items	512,443	611,990
Provision for Income Taxes (Note 12)		
Deferred	295,776	309,418
Current	44,887	75,501
	340,663	384,919
	171,780	227,071
Minority Interest	2,100	4,961
Earnings before Unusual Items and Dividends on Redeemable Preferred Shares	173,880	232,032
Unusual Items (Note 13)	864,901	
Net Earnings (Loss) for Year Before Dividends on Redeemable Preferred Shares	(691,021)	232,032
Dividends on Redeemable Preferred Shares (Note 9)	78,314	100,083
Net Earnings (Loss) for Year After Dividends on Redeemable Preferred Shares	(769,335)	131,949

CONSOLIDATED STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1985 (in thousands of dollars)

	1985	1984
Retained Earnings at beginning of year, as previously reported	353,046	212,027
Retroactive application of change in accounting policy for investment tax credits (Note 2)	(98,078)	(78,578)
Retained Earnings at beginning of year, as restated	254,968	133,449
Net earnings (loss) for year before dividends on redeemable preferred shares	(691,021)	232,032
Dividends—Redeemable preferred shares	(78,314)	(100,083)
—Common shares	(50,000)	
Exchange adjustment on redemption of redeemable preferred shares	(16,800)	(10,430)
Transfer from contributed surplus	62,461	
Retained Earnings (Deficit) at End of Year	(518,706)	254,968

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1985 (in thousands of dollars)

	1985	1984 (Restated)
Internally Generated Cash		
Working capital provided from operations (Note 14)	870,238	896,136
Proceeds from sale of property, plant and equipment	63,979	51,454
Advances on future natural gas deliveries	(27,948)	20,266
Internally generated cash	906,269	967,856
Investment Activities		
Acquisition of Gulf Canada Limited assets (Note 3)	713,947	
Expenditures on property, plant and equipment	1,059,192	1,130,965
Petroleum Incentive Program grants	(348,526)	(380,304)
Increase (decrease) in investments, net	(329,772)	282,103
(Increase) decrease in minority interest in subsidiaries	295,755	(1,859)
Increase (decrease) in operating working capital (Note 15)	(15,628)	135,480
Increase in deferred charges	3,892	14,014
	1,378,860	1,180,399
Financing Activities and Dividends		
Proceeds from issue of short-term notes payable, net	531,539	
Proceeds from issue of long-term debt	165,275	
Redemption of redeemable preferred shares	(104,663)	(92,435)
Dividends —Redeemable preferred shares	(78,314)	(100,083)
—Common shares	(50,000)	
Reduction of long-term debt	(46,409)	(42,704)
Issue of common shares		425,000
	417,428	189,778
Decrease in Cash	55,163	22,765
Cash and Short-Term Deposits at Beginning of Year	32,819	55,584
Cash and Short-Term Deposits (Deficiency) at End of Year	(22,344)	32,819

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1985
(tabular amounts shown in thousands of dollars)

1. Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of Petro-Canada, an agent of Her Majesty in the right of Canada, and of all subsidiary companies ("the Corporation") except Canertech Inc., which is excluded for the reason described in Note 5.

The excess of the consideration paid for the shares of subsidiaries over the underlying net book values at the dates of acquisition is attributed to the related assets acquired and is amortized over the life of these assets.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value.

(c) Investments

The Corporation accounts for investments in companies over which it has significant influence on the equity method. Other long-term investments are accounted for on the cost method.

(d) Property, Plant and Equipment

The Corporation accounts for its investment in oil and gas properties on the full cost method whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized. Such costs include those related to lease acquisitions, geological and geophysical activities, lease rentals on non-producing properties, drilling both productive and non-productive wells and overhead related to exploration. The Corporation applies a "ceiling test", to capitalized costs in each producing cost centre, to ensure that such costs do not exceed the estimated future net revenues from production of proven reserves, at prices and operating costs in effect at the balance sheet date, together with the estimated fair market value of unevaluated properties.

Separate cost centres have been established for non-frontier Canada, the Syncrude Project, producing in situ oil sands, other oil sands leases and each Canadian frontier area and foreign area in which the Corporation has an interest.

The interest cost of debt attributable to the construction of major new facilities is capitalized during the construction period.

Substantially all of the Corporation's exploration and production activities related to oil and gas are conducted jointly with others. Only the Corporation's proportionate interest in such activities is reflected in the financial statements.

(e) Depreciation, Depletion and Amortization

Costs incurred in non-frontier Canada, the Syncrude Project, in situ oil sands and in producing foreign cost producing centres are depreciated or depleted separately on the unit of production method based on estimated proven recoverable oil and gas reserves. For purposes of calculating depreciation and depletion, natural gas production and reserves are converted to equivalent units of crude oil based on the relative energy content of each commodity.

Annual costs incurred in the other cost centres are amortized on a straight line basis over the period during which exploration activity in each cost centre is expected to continue. When exploration proves to be successful, as when an indicated commercial discovery is made, amortization is suspended and the unamortized balance of the cost centre is depleted on the unit of production method when production commences. When exploration proves to be unsuccessful and the cost centre is condemned or abandoned, the unamortized balance of that cost centre is charged to earnings at that time.

Depreciation of other plant and equipment is provided on either the unit of production method or the straight line method as appropriate. Straight line depreciation rates are based on the estimated service life of the related asset.

(f) Deferred Charges

Costs relating to the removal of overburden from oil sands which will be mined in future years are deferred and are charged to earnings when the related oil sands are mined.

(g) Federal Petroleum Compensation Program

Amounts received under the Federal Compensation Program for oil imports are deducted from the cost of crude oil and product purchases. Amounts received under the Federal Compensation Program for synthetic crude oil are included in operating revenue.

(h) Income Taxes

The Corporation makes full provision for income taxes deferred as the result of claiming depreciation, exploration, development and other costs for income tax purposes which differ from the related amounts charged to expense in the financial statements.

(i) Translation of Foreign Currency

Current assets, except inventories and prepaid expenses, current liabilities and long-term debt are translated at rates of exchange in effect at the balance sheet date. Long-term assets, inventories, prepaid expenses, deferred income taxes and redeemable preferred shares are translated at rates of exchange in effect at the respective transaction dates. Revenue and expense items are translated at the average rates of exchange in effect during the year, except for depreciation, depletion and amortization which reflect rates of exchange in effect when the assets were acquired.

The resulting exchange gains or losses are included in earnings, except for unrealized exchange gains or losses arising on translation of long-term debt which are deferred and amortized over the remaining term of the debt.

Foreign operations are integrated with the Corporation's other activities and are translated in the above described manner.

(j) Pension Plans

Costs of pension benefits for current services of employees are funded and charged to earnings as they accrue. Costs arising from amendments to pension plans which relate to services of employees in prior years and experience deficiencies are funded in accordance with applicable pension legislation and charged to earnings over periods not exceeding fifteen years.

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1985—*Continued*

2. Change in Accounting Policy

During 1985 the Corporation changed its method of accounting for investment tax credits in accordance with the recommendations issued by the Canadian Institute of Chartered Accountants. Investment tax credits, previously recognized on a flow through basis, are now accounted for by the cost reduction method. This change has been applied retroactively and the prior year's financial statements restated.

The effect of this change in 1985 has been to increase the net loss for year after dividends on redeemable preferred shares by $13,483,000.

3. Acquisitions

(a) Gulf Canada Limited ("Gulf") Refining and Marketing Assets

Effective September 30, 1985, the Corporation acquired certain refining and marketing assets from Gulf for an initial cash consideration of $611,000,000. Additional costs, relating to the acquisition, in the amount of $102,947,000 have been accrued.

The net assets acquired, at attributed values, consist of:

Property, plant and equipment	406,850
Investments	14,487
Net working capital	292,610
	713,947

In addition, the Corporation has agreed to purchase the Edmonton refinery assets for an aggregate cash consideration of $275,000,000 by the earlier of February 27, 1987 or thirty days after the dissolution of a partnership which currently owns the assets.

(b) Petro-Canada Products Inc. ("Products")

Pursuant to a tender offer dated February 28, 1983 the Corporation committed to acquire all of the outstanding voting and non-voting shares of Products (formerly BP Refining and Marketing Canada Limited). During 1985 the Corporation completed its acquisition of Products by purchasing the remaining non-voting shares for a consideration, including related expenses, of $301,953,000. The aggregate cost of acquiring the shares of Products was $424,704,000.

Funds for the 1985 share purchase were provided from cash held for use in tender offer and an issue of long-term debt.

4. Inventories

Inventories consist of:

	1985	1984
Crude oil, refined products and merchandise	1,043,335	768,774
Materials and supplies	66,116	76,941
	1,109,451	845,715

5. Investments

Investments consist of:

	1985	1984
At equity		
Westcoast Transmission Company Limited	181,299	176,984
Petro-Canada Centre	24,091	222,505
Sedpex Inc.	22,602	15,334
Other	11,839	4,418
At cost		
Mortgages and other investments	51,012	43,114
Cash held for use in tender offer		131,879
Canertech Inc.		
	290,843	594,234

Westcoast Transmission Company Limited ("Westcoast")

At December 31, 1985 the Corporation held 31.1% of the total outstanding common shares of Westcoast.

The cost of the investment in Westcoast exceeded the underlying net book value at the dates of acquisition. This excess is being amortized over the estimated useful lives of the underlying assets to which it is attributed by charges against the Corporation's share of Westcoast's net earnings.

Westcoast is a regulated utility and is subject to regulatory directives which may change the components of the cost of service. Changes resulting from such directives do not have a direct effect on net earnings due to rate of return on rate base considerations which are also taken into account in the regulatory process.

At December 31, 1985 the quoted market value of the Corporation's investment in Westcoast was $227,517,000 (1984—$190,924,000).

Petro-Canada Centre

At December 31, 1985 the Corporation held 50% of a joint venture which owns Petro-Canada Centre, an office complex in Calgary. The Corporation has entered into a long-term lease for use of a portion of the complex (Note 20) and has guaranteed $286,000,000 of long-term debt related to the facility.

Sedpex Inc.

At December 31, 1985 the Corporation held 50% of the total outstanding common shares of Sedpex Inc., a company which owns a semi-submersible drilling vessel. This vessel is under lease to the Corporation (Note 20).

Canertech Inc. ("Canertech")

The accounts of Canertech, a wholly-owned subsidiary company, have been excluded from consolidation because a formal plan exists to dispose of the investment in the subsidiary. In response to a directive by the Government of Canada, the Corporation incorporated Canertech in 1981 to develop alternate energy sources. At that time the Government indicated its intention of purchasing the Corporation's investment at cost and establishing Canertech as an independent Crown corporation. During 1984 the Government directed the Corporation to bring about the dissolution of Canertech. The Corporation is proceeding with the implementation of this directive. The Corporation's investment in Canertech is carried in the accounts at its original cost of $1.

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1985—*Continued*

6. Property, Plant and Equipment

Property, plant and equipment consists of:

	1985			1984
	Cost*	Accumulated Depreciation, Depletion and Amortization	Net	Net
Oil and gas				
Canada				
—Non-frontier areas	3,911,728	821,373	3,090,355	3,068,344
—Frontier areas	1,011,122	795,268	215,854	915,270
Foreign	163,394	106,786	56,608	81,133
Refining and marketing	2,016,063	279,178	1,736,885	1,375,598
Oil sands				
Syncrude Project	618,542	92,698	525,844	486,361
Producing in situ	85,431	5,016	80,415	
Other oil sands	197,541	197,541		207,457
Natural gas liquids	202,865	59,674	143,191	128,885
Other property and equipment	342,621	161,608	181,013	250,892
	8,549,307	2,519,142	6,030,165	6,513,940

*Cost is net of related Petroleum Incentive Program grants and investment tax credits.

7. Deferred Charges

Deferred charges consist of:

	1985	1984
At cost		
Oil sands overburden removal costs	44,395	41,511
Less portion related to oil sands to be mined within one year	14,032	10,730
	30,363	30,781
Polar Gas Project	1,534	17,617
At amortized cost		
Translation adjustment on long-term debt	19,884	9,085
Marketing reidentification		28,588
Other	12,943	12,101
	64,724	98,172

8. Long-Term Debt

Long-term debt consists of:

	Maturity	1985	1984
In Canadian dollars			
8.25% unsecured notes	1993	14,375	14,375
5.75% unsecured notes	1986	6,961	6,961
Promissory notes, bearing interest at prime rate			13,192
Unsecured loans, bearing interest at prime rate to ½% above prime rate			9,500
Other loans and long-term obligations	1986-1988	1,523	1,923
In United States dollars			
LIBOR less 0.8% unsecured notes ($125,000,000 U.S.)	1995	174,688	
9% unsecured notes ($41,250,000 U.S.)	1996	57,646	59,466
7.75% unsecured notes ($14,000,000 U.S.)	1993	19,565	21,142
8.45% unsecured notes ($10,000,000 U.S.)	1987	13,975	19,821
5.75%—6.25% mortgages ($592,000 U.S.)	1988	828	2,080
5.25% unsecured notes			8,589
		289,561	157,049
Less current portion		20,430	47,102
		269,131	109,947

Repayment of long-term debt

The minimum repayment of long-term debt in each of the next five years is as follows:

1986	20,430,000
1987	13,894,000
1988	7,700,000
1989	7,698,000
1990	7,695,000

9. Redeemable Preferred Shares

The redeemable preferred shares, which were issued by a subsidiary to a group of Canadian chartered banks, are floating rate, cumulative, redeemable and non-voting. Cumulative dividends, payable quarterly, are, at the option of the subsidiary, based on a percentage of either the United States Base Rates or the London Inter-Bank Offered Rates of the banks. At December 31, 1985, the dividend rate was approximately 4.6% per annum. The shares are redeemable, at the option of the subsidiary, at $100 U.S. per share, plus accrued dividends. In 1985 the subsidiary exercised its option to redeem 750,000 shares (1984—700,000 shares) for a consideration of $75,000,000 U.S. (1984—$70,000,000 U.S.) and 10,450,000 shares were outstanding at December 31, 1985.

Under the terms of an agreement between the banks and the Corporation, in the event that the subsidiary does not exercise its option to redeem the shares over an eight year period ending December 31, 1993, or in the event of certain other occurrences under the provisions of the agreement, the banks have the option to require the Corporation to purchase the shares at $100 U.S. per share, plus accrued dividends. These annual options increase from $85,000,000 U.S. to $170,000,000 U.S. over the remaining period.

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Continued*

10. Capital

Authorized

In the aggregate the authorized capital is:

(a) 71,188 common shares with a par value of $100,000 each.

(b) Preferred shares issued to the Government of Canada provided that the amount of such shares together with any loans received, and outstanding, from the Consolidated Revenue Fund of the Government of Canada is not in excess of $1 billion.

Issued (to the Government of Canada)

	1985		1984	
	Number of Shares	Consideration	Number of Shares	Consideration
Common Shares				
Balance at beginning of year	31,883	3,188,300	27,633	2,763,300
For cash			4,250	425,000
Balance at end of year	31,883	3,188,300	31,883	3,188,300
Preferred Shares				
Balance at beginning and end of year	972,771,853	972,772	972,771,853	972,772
Total Capital at End of Year		4,161,072		4,161,072

The preferred shares have a par value of $1 each, are redeemable at par at the option of the Corporation, carry no stated rate of dividend and are non-cumulative.

11. Taxes Other than Income Taxes

Taxes other than income taxes consist of:

	1985	1984
Federal sales tax	249,341	184,508
Petroleum and gas revenue tax	123,448	118,536
Other	54,787	40,740
	427,576	343,784

12. Income Taxes

The provision for income taxes of $340,663,000 (1984—$384,919,000) represents an effective rate of 66.5% (1984—62.9%) on earnings before income taxes of $512,443,000 (1984—$611,990,000). The computation of the provision, which requires adjustment to earnings before income taxes for non-taxable and non-allowable items, is as follows:

	1985	1984
Earnings before income taxes	512,443	611,990
Add (deduct)		
Royalties and other payments to provincial governments	307,096	327,560
Federal allowances		
Resource allowance	(259,999)	(245,909)
Tax depletion	(21,046)	(29,268)
Inventory allowance	(29,556)	(10,498)
Petroleum and gas revenue tax	123,448	118,536
Non-deductible depreciation, depletion and amortization	95,442	98,661
Equity in earnings of affiliates	(22,383)	(17,874)
Foreign exchange gains	(2,781)	(4,846)
Other	5,805	291
Earnings as adjusted before income taxes	708,469	848,643
Canadian Federal income tax at 46.9% (1984—46%) applied to earnings as adjusted	332,272	390,375
Provincial and other income taxes, net of federal abatement	16,215	3,624
Provincial income tax rebate plans	(7,824)	(9,080)
Provision for income taxes	340,663	384,919

13. Unusual Items

The unusual items charged to earnings during 1985 consist of:

Canada frontier oil and gas properties	547,614
Process development costs	108,168
Oil sands properties	90,153
Inventory adjustment	45,354
Relocation and reorganization	20,231
Foreign oil and gas properties	16,715
Coal and mineral properties	14,806
Marketing reidentification	13,096
Polar Gas Project	8,764
	864,901

Canada frontier oil and gas properties

As a result of the decline in world oil prices and changes in the current and anticipated energy environment, the Corporation has written off the carrying value of certain of its Canadian frontier oil and gas properties. Accordingly, the unamortized costs of these properties together with provisions for anticipated losses on contracted offshore drilling vessels and ancillary equipment, amounting to $547,614,000 (after deducting related income taxes of $443,081,000 and minority interest of $121,958,000), have been charged to earnings.

Process development costs

Construction of a plant to demonstrate a process for upgrading heavy residual fuel oils was completed during 1985. This plant was constructed pursuant to a directive by the Government of Canada. As a result of changed economic conditions the Corporation has charged the project costs, amounting to $108,168,000 (after deducting related income taxes of $37,080,000), to earnings.

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1985—*Continued*

Oil sands properties

As a result of the decline in world oil prices and uncertainties as to the timing of new oil sands developments, the Corporation has written off the carrying value of its oil sands properties other than the producing in situ and Syncrude projects. Accordingly, the unamortized costs of these properties, amounting to $90,153,000 (after deducting related income taxes of $49,212,000), have been charged to earnings.

Inventory adjustment

As a result of the Western Accord the Corporation is no longer required to sell its Alberta crude oil production to the Alberta Petroleum Marketing Commission and since June 1, 1985 it has supplied crude oil directly to its own refineries. This change extends the point of sale and the resultant profit recognition from the wellhead to the refined product customer. At December 31, 1985 inventory has been reduced by $45,354,000 (after deducting related income taxes of $30,680,000) and this amount has been charged to earnings.

Relocation and reorganization

During 1985 the Corporation announced plans to relocate certain functions relating to its refining and marketing operations from Eastern Canada to Calgary. In addition, the Corporation commenced an internal reorganization program which will result in a staff reduction. The estimated costs associated with the relocation and reorganization in the amount of $20,231,000 (after deducting related income taxes of $18,869,000) have been charged to earnings.

Foreign oil and gas properties

The Corporation has written off the carrying value of its China cost centre because of a lack of exploration success. Accordingly, $16,715,000 (after deducting related income taxes of $15,043,000) has been charged to earnings.

Coal and mineral properties

As a result of the decline in world prices and uncertainties as to the timing of the development of coal and mineral properties, the Corporation has written off the carrying value of these properties. Accordingly, the remaining cost of these properties, amounting to $14,806,000 (after deducting related income taxes of $13,296,000), has been charged to earnings.

Marketing reidentification

The Corporation has determined that it has realized substantially all of the economic benefits of marketing reidentification costs incurred in prior years, which were deferred and amortized over the period during which benefits were expected to be realized. Accordingly, the unamortized balance of these costs, amounting to $13,096,000 (after deducting related income taxes of $12,045,000), has been charged to earnings.

Polar Gas Project

The Polar Gas Project has recently completed its application to the National Energy Board to build a pipeline from the Mackenzie Delta to Edson, Alberta and has abandoned its plans for a pipeline from the Arctic Islands to Eastern Canada. Costs incurred in prior years, relating to feasibility studies in connection with the abandoned route, which were deferred, amounting to $8,764,000 (after deducting related income taxes of $8,171,000), have been charged to earnings.

14. Working Capital Provided from Operations

Working capital provided from operations consists of:

	1985	1984
Earnings before unusual items and dividends on redeemable preferred shares	173,880	232,032
Add (deduct)		
Depreciation, depletion and amortization	410,190	362,994
Deferred income taxes	295,776	309,418
Equity earnings, net of dividends received	(6,594)	(2,640)
Other	(3,014)	(5,668)
	870,238	896,136

15. Change in Components of Operating Working Capital

The increase (decrease) in operating working capital consists of the following movements during the year:

	1985	1984
Accounts receivable	470,485	17,662
Inventories	263,736	134,709
Income taxes recoverable	(12,623)	(4,229)
Deposits and prepaid expenses	11,763	2,720
Accounts payable and accrued liabilities	(681,247)	(15,382)
Operating working capital acquired from Gulf Canada Limited (Note 3)	(292,610)	
Current accruals relating to unusual items (Note 13), and other	224,868	
	(15,628)	135,480

Operating working capital is comprised of working capital other than cash and short-term deposits, short-term notes payable and current portion of long-term debt.

16. Pension Plans

Based on the most recent actuarial valuations of the Corporation's pension plans the unfunded past service pension obligations at December 31, 1985 are approximately $67,000,000. All accrued, including vested, benefits at December 31, 1985 are fully funded.

17. Material Transactions with Related Parties

The Corporation has transactions with the Government of Canada and its agencies which are in the normal course of business and are therefore on the same terms as those accorded to non-related parties.

18. Segmented Information

The Corporation operates principally in the following business segments:

Natural Resources

Exploration, development and production activities for crude oil, natural gas, field liquids, sulphur, oil sands; extraction of liquids from natural gas; transportation, distribution and marketing of the natural gas liquids.

Refined Oil Products

Purchase and sale of crude oil; refining crude oil into oil products; distribution and marketing of these and other purchased refined oil products.

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Continued*

The financial results of operations by business segment are as follows:

	Natural Resources		Refined Oil Products		Eliminations		Total	
	1985	1984	1985	1984	1985	1984	1985	1984
Sales to customers	971,526	1,450,252	4,328,571	3,431,041			5,300,097	4,881,293
Inter-segment transfers	660,507	88,572			(660,507)	(88,572)		
Total Operating Revenue	1,632,033	1,538,824	4,328,571	3,431,041	(660,507)	(88,572)	5,300,097	4,881,293
Product costs and operating expenses	533,559	534,472	3,580,858	2,809,601	(660,507)	(88,572)	3,453,910	3,255,501
Depreciation, depletion and amortization	282,979	250,727	97,327	84,833			380,306	335,560
Taxes other than income taxes	147,795	121,688	279,781	222,096			427,576	343,784
	964,333	906,887	3,957,966	3,116,530	(660,507)	(88,572)	4,261,792	3,934,845
Operating Earnings	667,700	631,937	370,605	314,511			1,038,305	946,448
Marketing, general and administrative expenses							(552,548)	(403,170)
Provision for income taxes							(340,663)	(384,919)
Investment and other income							80,834	107,470
Other depreciation and amortization							(29,884)	(27,434)
Interest on long-term debt							(24,264)	(11,324)
Minority interest							2,100	4,961
							(864,425)	(714,416)
Earnings Before Unusual Items and Dividends on Redeemable Preferred Shares							173,880	232,032

Inter-segment transfers are accounted for at market value.

Natural resources segment revenue consists of:

	1985	1984
Crude oil and field liquids	990,178	867,366
Natural gas liquids	301,532	325,058
Natural gas	291,962	284,522
Other	48,361	61,878
	1,632,033	1,538,824

Refined oil products segment revenue consists of:

	1985	1984
Gasoline	2,231,710	1,813,981
Distillates	1,349,573	1,025,140
Other	747,288	591,920
	4,328,571	3,431,041

The identifiable assets at December 31, and the capital expenditures for the year, by business segment, are as follows:

	Identifiable Assets		Capital Expenditures*	
	1985	1984	1985	1984
Natural resources	4,509,488	5,444,759	869,341	954,217
Refined oil products	3,808,278	2,634,699	168,127	136,400
Other	528,326	886,706	(172,277)	204,586
	8,846,092	8,966,164	865,191	1,295,203

*Capital expenditures are before deduction of related Petroleum Incentive Program grants.

Other identifiable assets include cash and short-term deposits, investments in other companies and general corporate assets.

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1985—*Concluded*

19. Comparative Figures

Certain reclassifications have been made to the 1984 comparative figures to conform with the current year's presentation.

20. Commitments and Contingencies

(a) Commitments

The Corporation has leased certain offshore drilling vessels and ancillary equipment under various contracts, the last of which expires in 1988. The rentals for these offshore vessels, when used by the Corporation, are shared with joint venture participants. The vessels are available for sublease when not required by the Corporation.

The gross lease rentals for the offshore vessels, less accrued amounts relating to the unusual items (Note 13), together with minimum annual rentals for Petro-Canada Centre (Note 5) and other non-cancellable operating leases are estimated at $95,000,000 in 1986, $63,000,000 in 1987, $45,000,000 in 1988, $44,000,000 in 1989, $41,000,000 in 1990 and $15,000,000 per year thereafter until 2008.

(b) Contingencies

The Corporation is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Corporation.

PETRO-CANADA—*Continued*

APPENDIX

CANERTECH INC.

AUDITORS' REPORT

TO THE SHAREHOLDER OF CANERTECH INC.

We have examined the Balance Sheet of Canertech Inc. (a wholly-owned subsidiary of Petro-Canada) as at December 31, 1985 and the Statements of Loss and Deficit and Changes in Financial Position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Burke, Newman & Co.
Chartered Accountants

Winnipeg, Canada
January 30, 1986

BALANCE SHEET DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984	LIABILITIES AND SHAREHOLDER'S DEFICIT	1985	1984
Cash and term deposits	7,150	13,596	Accounts payable and accrued liabilities		122
Due from Energy, Mines and Resources Canada (Note 2)	2,250	2,410	Obligations under capital leases		103
Investment in Canertech Conservation Inc. (Note 3)	4,800	4,261	Accrual for dissolution costs (Notes 6 and 12)	857	6,196
Other investments (Note 4)	1,015	1,175	Commitments (Note 10)		
Fixed assets		175	Advances from the Government of Canada (Note 7)	31,800	31,800
Income taxes recoverable (Note 5)	680	680	Shareholder's deficit (Note 8)	(16,762)	(15,885)
Other assets		39			
	15,895	22,336		15,895	22,336

The accompanying notes are an integral part of this balance sheet.

Approved on behalf of the Board:

GRAHAM WILSON
Director

J. B. GRANT
Director

PETRO-CANADA—*Continued*

APPENDIX—*Continued*

CANERTECH INC.—*Continued*

STATEMENT OF LOSS AND DEFICIT YEAR ENDED DECEMBER 31, 1985 (in thousands of dollars)

	1985	1984
Income		
Interest income		1,897
Equity in loss of Canertech Conservation Inc.	(341)	(363)
	(341)	1,534
Administrative expenses		1,842
Loss before extraordinary item	341	308
Extraordinary item (Notes 3 and 9)	536	9,861
Net loss for the year	877	10,169
Deficit, beginning of year	15,885	5,716
Deficit, end of year	16,762	15,885

The accompanying notes are an integral part of this statement.

STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1985 (in thousands of dollars)

	1985	1984
Source of funds		
Loss before extraordinary item	341	308
Deduct: items not affecting funds		
—Amortization and depreciation		75
—Equity in loss of Canertech Conservation Inc.	341	363
Funds provided from operations		130
Decrease in other assets	39	31
Proceeds on sale of fixed assets	175	
Proceeds on sale of other investments	160	
Decrease in amount due from Energy, Mines and Resources Canada	160	
	534	161
Use of funds		
Increase in amount due from Energy, Mines and Resources Canada		2,260
Net advances to investees	1,416	2,434
Purchase of fixed assets, net		44
Decrease in accounts payable	122	178
Decrease in obligation under capital leases	103	21
Decrease in accrual for dissolution costs	5,339	
	6,980	4,937
Decrease in cash and term deposits	6,446	4,776
Cash and term deposits, beginning of year	13,596	18,372
Cash and term deposits, end of year	7,150	13,596

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1985

Order-in-Council

On December 21, 1984, the Government of Canada issued Order-in-Council P.C. 1984-4187 whereby the parent corporation was directed to bring about the dissolution of Canertech Inc. and take such steps as are necessary to dispose of the existing investment portfolio with the provision that Canertech Conservation Inc., a wholly-owned subsidiary of Canertech Inc., be continued with the expressed intent of replacing Crown ownership with private Canadian ownership.

1. Significant accounting policy

Consistent with the terms of the Order-in-Council, these financial statements have been prepared on the liquidation basis with the exception of the investment in Canertech Conservation Inc. Assets have been presented at their estimated net realizable values before costs of dissolution.

Canertech Conservation Inc. is accounted for by the equity method as management believes that consolidation of this subsidiary with Canertech Inc. would not result in a more informative financial presentation.

2. Due from Energy, Mines and Resources Canada

These amounts arose from the corporation's participation in the Ethanol-from-Cellulose development program and the Societe Biosyn (Reg'd) joint venture. Prior to the above mentioned Order-in-Council, the corporation was to be reimbursed for these amounts by Energy, Mines and Resources Canada. It is anticipated that the ultimate settlement of these amounts will require the direction of the Treasury Board of the Government of Canada and will involve a set-off against the advances from the Government of Canada.

3. Investment in Canertech Conservation Inc.

Canertech Conservation Inc., a wholly-owned subsidiary of the corporation, enters into contracts to design, install and finance energy retrofit measures identified through energy studies performed on the clients' facilities. These energy conservation retrofit contracts permit the client to undertake energy conservation projects without any outlay of capital and to repay these retrofit costs from realized energy savings.

The investment is accounted for on the equity method as follows:

	1985	1984
	(in thousands of dollars)	
Investment, at cost	6,661	5,245
Losses incurred to date	(1,325)	(984)
Write-down	(536)	
	4,800	4,261

PETRO-CANADA—*Concluded*

APPENDIX—*Concluded*

CANERTECH INC.—*Concluded*

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1985—*Concluded*

Condensed financial information from Canertech Conservation Inc.'s December 31, 1985 consolidated financial statements is as follows:

Condensed consolidated balance sheet

	December 31, 1985	December 31, 1984
	(in thousands of dollars)	
Assets		
Cash, receivables and other assets	1,170	1,741
Retrofit contracts	3,219	1,333
Investment in Econoler Inc., at cost	1,225	1,225
Fixed assets	166	204
Royalties, license and deferred costs	390	448
	6,170	4,951
Liabilities and shareholder's deficit		
Accounts payable and other liabilities	438	395
Deferred revenue	220	89
Non-current advances from Canertech Inc	6,661	5,245
Minority interests	176	206
Shareholder's deficit	(1,325)	(984)
	6,170	4,951

Condensed consolidated statement of loss and deficit

	(in thousands of dollars)	
Contract revenue	604	243
Cost of contracts	(617)	(244)
Other income	469	388
Administrative expenses net of amount applied to contracts	(826)	(778)
Minority interests in loss	29	27
Net loss for the year	341	364
Deficit, beginning of year	984	620
Deficit, end of year	1,325	984

4. Other investments

As of December 31, 1985, the corporation held a majority interest in Hunter Enterprises Orillia Limited and Sparfil International Inc. and an interest in Valera Electronics Inc. and a joint venture interest in Omnifuel Gasification Systems through a wholly-owned subsidiary, 107744 Canada Inc. The corporation is negotiating to dispose of these investments; consequently, these investments are recorded at estimated net realizable values before costs of disposition. Also included in other investments is a non-interest bearing note receivable which is repayable in seven annual installments of $50,000 beginning May 15, 1986.

5. Income taxes recoverable

This amount represents the recovery of all income taxes previously paid by the corporation.

The benefits resulting from any future income tax reductions have not been recorded in these financial statements.

6. Accrual for dissolution costs

The accrual for dissolution costs represents management's anticipation of the costs to complete the disposition of assets and the settlement of liabilities. Should the corporation not conclude the disposition of investments as currently contemplated by management, additional costs may be incurred.

7. Advances from the Government of Canada

The advances are without requirement for interest or repayment. Management does not anticipate that the corporation will be able to repay the obligation in its entirety with the Government of Canada absorbing the company's deficit upon dissolution.

8. Share capital

Authorized—An unlimited number of common shares

Issued and fully paid—1 common share for $1

9. Extraordinary item

The extraordinary item recorded in 1984 resulted from the adjustments required to present the financial statements on the liquidation basis and included equity in the losses of other investments, income tax recovery, write-down of assets and accrual for dissolution costs. The extraordinary item for 1985 represents the write-down of the investment in Canertech Conservation Inc.

10. Commitments

Canertech Conservation Inc. has committed a maximum of approximately $1,840,000 to subscribe proportionately with the minority shareholders for shares of its operating subsidiaries and to make advances of approximately $4,500,000 as may be required to support the growth of subsidiaries.

11. Contingencies

The corporation is a defendant in legal actions amounting to approximately $77 million and legal counsel is of the opinion that the actions are without foundation and accordingly, no provision for such claims has been made in the accounts of the company.

12. Related party transaction

The parent company has provided management services to the corporation in the amount of approximately $150,000 in 1985 (nil in 1984). This amount remains unpaid at December 31, 1985.

13. Events subsequent to year end

The corporation has disposed of its investment in Sparfil International Inc. at the value recorded in the financial statements. The proceeds of disposition include non-interest bearing notes of $100,000 and $150,000 due December 31, 1986 and December 31, 1987, respectively.

SUMMARY PAGE

PETRO-CANADA INTERNATIONAL ASSISTANCE CORPORATION

MANDATE

To assist oil-importing developing countries to exploit their own energy resources, particularly hydrocarbons; to provide development assistance directly to Third World countries and to be available as an executing agent for other institutions such as the World Bank. By Order in Council P.C. 1985-2957 pursuant to s. 97(2) of the FAA the Corporation was directed to report on its affairs as if it were a parent Crown corporation.

BACKGROUND

The first meeting of the board of directors took place January 25, 1982. Since then, the Corporation has been active in several countries, applying Canadian technology and expertise with Canadian official development assistance funding in the search for hydrocarbons and in related studies, and in training personnel of those countries. This is a non-profit, government-funded organization.

CORPORATION DATA

HEAD OFFICE	216–350 Sparks Street Ottawa, Ontario K1R 7S8
STATUS	Not yet in any schedule of the *Financial Administration Act* —not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Marcel Masse, P.C., M.P.
DEPARTMENT	Energy, Mines and Resources
DATE AND MEANS OF INCORPORATION	August 1981, by *The Canada Business Corporations Act*
CHIEF EXECUTIVE OFFICER AND CHAIRMAN	P.M. Towe
AUDITOR	Peat, Marwick, Mitchell and Co.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	**1984**	**1983**	**1982**
At the end of the year				
Total Assets	13.2	3.5	5.2	21.0
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	5.1	2.8	nil	nil
Equity of Canada	negl.	negl.	negl.	negl.
Cash from Canada in the year				
—budgetary	20.3	71.7	39.0	21.0
—non-budgetary	nil	nil	nil	nil

PETRO-CANADA INTERNATIONAL ASSISTANCE CORPORATION

AUDITORS' REPORT

TO THE SHAREHOLDER

We have examined the balance sheet of Petro-Canada International Assistance Corporation, a subsidiary of Petro-Canada, as at December 31, 1985 and the statements of operations and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Calgary, Canada
February 19, 1986

BALANCE SHEET AS AT DECEMBER 31, 1985

ASSETS	1985	1984	LIABILITIES AND SHAREHOLDER'S EQUITY	1985	1984
	$	$		$	$
Current Assets			Current Liabilities		
Cash and short-term deposits	10,702,106	3,496,889	Due to affiliated company, Petro-Canada Inc.	7,896,657	722,292
Accounts receivable (Note 3)	2,546,319	10,397	Income taxes payable	247,858	24,144
				8,144,515	746,436
			Excess of Parliamentary Appropriations Over total expenditures	5,103,909	2,760,849
			SHAREHOLDER'S EQUITY		
			Share capital (Note 4)	1	1
	13,248,425	3,507,286		13,248,425	3,507,286

Approved on behalf of the Board:

P. M. TOWE
Director

DE MONTIGNY MARCHAND
Director

PETRO-CANADA INTERNATIONAL ASSISTANCE CORPORATION—*Concluded*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1985

	1985	1984
	$	$
Project Expenditures		
Pakistan	17,213,660	
Kenya	4,155,393	2,964,886
Ghana	2,302,724	34,922,023
Jamaica—Phase III	2,557,978	
Barbados—Phase III	2,434,556	
Burma	1,769,016	804,197
Thailand	723,810	6,581,502
Philippines—Phase II	628,276	
Guinea	618,861	1,829,922
Morocco	390,000	
Technical Assistance Facility	352,218	
Colombia	271,709	
Gambia	203,902	122,190
Sri Lanka	177,153	1,339,875
Jamaica—Phase II	131,362	184,990
Barbados—Phase II	104,418	5,514,337
Caribbean Regional Project	96,035	1,510,079
Philippines	86,269	5,075,323
Tanzania—Phase II	71,280	
Morocco—Special Report	16,523	114,546
Tanzania	1,345	113,798
Senegal	(420,103)	6,592,097
Jamaica	(23,472)	9,158
Barbados	(13,870)	(453,971)
Haiti	(8,646)	1,826,843
Project development	262,803	810,237
	34,103,200	69,862,032
Expenses		
General and administrative expenses	1,469,354	1,697,600
Interest income, net	(995,696)	(622,670)
Current income taxes	509,315	280,000
Total expenditures	35,086,173	71,216,962
Parliamentary appropriations for the year (Note 3)	37,429,233	71,652,000
	2,343,060	435,038
Excess of parliamentary appropriations over total expenditures at beginning of year	2,760,849	2,325,811
Excess of parliamentary appropriations over total expenditures at end of year	5,103,909	2,760,849

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1985

	1985	1984
	$	$
Source of cash		
Parliamentary appropriations	37,429,233	71,652,000
Uses of cash		
Expenditures	35,086,173	71,216,962
(Decrease) increase in non-cash working capital	(4,862,157)	2,179,499
	30,224,016	73,396,461
Increase (Decrease) in cash and short-term deposits	7,205,217	(1,744,461)
Cash and short-term deposits at beginning of year	3,496,889	5,241,350
Cash and short-term deposits at end of year	10,702,106	3,496,889

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1985

1. Incorporation

The Corporation was incorporated in 1981 by Petro-Canada under the Canada Business Corporations Act as a wholly-owned subsidiary pursuant to directions provided by Order-in-Council P.C. 1981-2167 of August 5, 1981.

2. Operations

The Corporation assists developing countries in the exploration for oil and gas and related activities in those countries in a manner consistent with the foreign aid and energy objectives and programmes of the Government of Canada. The Corporation's activities are financed by Parliamentary appropriations. An affiliated company, Petro-Canada Inc. ("PCI"), provides technical and administrative services to the Corporation at cost. In addition, the Corporation may also borrow from PCI such funds as it may require from time to time. Advances received from PCI, which cannot exceed $50,000,000 at any time, bear interest at the cost of borrowing to PCI.

3. Parliamentary appropriations

In addition to Parliamentary appropriations received pursuant to subsection 24.2 of the Petro-Canada Act, a portion of the Corporation's expenditures relating to the Pakistan project, amounting to $17,081,233, were financed by Government funds made available to the Corporation through the Canadian International Development Agency. Of this amount $2,543,716 was included in accounts receivable as at December 31, 1985.

4. Share capital

Authorized

Common shares—Unlimited

Issued

One common share for a cash consideration of one dollar.

SUMMARY PAGE

PORT OF QUEBEC CORPORATION

MANDATE

Administration, management and control of the Harbour of Quebec and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Port of Quebec Corporation was established on June 1, 1984 pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. The port is an important trans shipment point for Canadian grain exports and has recently modernized its two grain elevators which are operated under contract by a private firm. The port handled 14.7 million tonnes of cargo in 1985 including 5.1 million tonnes of grain.

CORPORATION DATA

HEAD OFFICE	150 Dalhousie St. P.O. Box 2268 Quebec, Quebec G1K 7P7
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	June 1, 1984; letters patent of incorporation issued by the Minister of Transport pursuant to subsection 6.2(1) of the *Canada Ports Corporation Act*.
CHIEF EXECUTIVE OFFICER	Jean M. Tessier
CHAIRMAN	Ross Gaudreault
AUDITOR	Thorne Riddell

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	**Seven months* to Dec. 31, 1984**
At year end		
Total Assets	88.0	83.6
Obligations to the private sector	nil	nil
Obligations to Canada	nil	nil
Equity of Canada	83.5	79.7
Cash from Canada in the period		
— budgetary	nil	nil
— non-budgetary	nil	nil

* The Corporation began operations on June 1, 1984.

PORT OF QUÉBEC CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DONALD MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of the Port of Québec Corporation as at December 31, 1985, the statement of income and deficit and the statement of the changes in financial position for the year then ended. Our verification was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the port as at December 31, 1985 and the results of its operations and the changes of its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation which have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and its regulations, the Canada Ports Corporation Act and the by-laws of the Corporation.

Thorne Riddell
Chartered Accountants

Québec, Canada
February 20, 1986

BALANCE SHEET AS AT DECEMBER 31, 1985

ASSETS	1985	1984	LIABILITIES	1985	1984
	$	$		$	$
Current			Current		
Cash	275,356	288,267	Accounts payable and accrued liabilities	2,486,742	2,059,188
Investments (Note 3)	33,109,060	30,205,593	Grants in lieu of municipal taxes	502,000	456,450
Accounts receivable	3,256,021	5,479,237	Deferred revenues	731,068	710,067
Materials and supplies	60,373	62,986		3,719,810	3,225,705
	36,700,810	36,036,083	Long-term		
Investments (Note 3)	6,597,511	6,571,166	Accrued employee benefits	791,000	739,700
	43,298,321	42,607,249		4,510,810	3,965,405
Fixed (Note 4)	44,692,982	41,031,689			
			EQUITY OF CANADA		
			Contributed capital	107,251,631	107,251,631
			Deficit	23,771,138	27,578,098
				83,480,493	79,673,533
	87,991,303	83,638,938		87,991,303	83,638,938

On behalf of the Board:

ROSS GAUDREAULT
Chairman

JEAN-MICHEL TESSIER
General Manager and Chief Executive Officer

PORT OF QUÉBEC CORPORATION—*Continued*

STATEMENT OF INCOME AND DEFICIT

	For the year ended December 31, 1985	For the seven months ended December 31, 1984
	$	$
Revenue from operations	9,405,701	8,509,154
Expenses		
Operating and administrative expenses	7,159,073	4,381,969
Depreciation	1,721,120	1,097,127
Grants in lieu of municipal taxes	1,016,136	586,749
	9,896,329	6,065,845
Income (loss) from operations	(490,628)	2,443,309
Other income		
Investment income	4,297,588	2,458,436
Net income	3,806,960	4,901,745
Deficit at beginning of the year	27,578,098	32,479,843
Deficit at end of the year	23,771,138	27,578,098

STATEMENT OF CHANGES IN FINANCIAL POSITION

	For the year ended December 31, 1985	For the seven months ended December 31, 1984
	$	$
Source (application) in cash		
Operations		
Net income	3,806,960	4,901,745
Items not affecting cash		
Amortization of discount on Canada Government bonds	(26,345)	(15,359)
Depreciation	1,721,120	1,097,127
(Gain) loss on disposal of fixed assets	(46,947)	4,586
Accrued employee benefits	51,300	(116,500)
Variation in working capital except cash	2,719,934	(4,130,393)
	8,226,022	1,741,206
Investments		
Additions to fixed assets	5,384,700	2,703,926
Proceeds on disposal of fixed assets	(49,234)	(1,751)
	5,335,466	2,702,175
Increase (decrease) in cash and short-term investments for the year	2,890,556	(960,969)
Cash and short-term investments at beginning of the year	30,493,860	31,454,829
Cash and short-term investments at end of the year	33,384,416	30,493,860

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1985

1. Incorporation

The Port of Québec Corporation was established June 1, 1984, under 6.2(1) of the Canada Ports Corporation Act.

2. Statement of significant accounting policies

(a) Investments

Investments are direct and guaranteed securities of Canada. They are shown at amortized cost and the premium or discount is amortized over the periods to maturity.

(b) Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated according to the straight-line method, once the asset becomes operational, for the entire year, using the following annual rates:

Dredging	2.5-6.7%
Berthing structures	2.5-10%
Buildings	2.5-10%
Utilities	3.3-10%
Roads and surfaces	2.5-10%
Machinery and equipment	5-100%
Office furniture and equipment	20%

(c) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(d) Insurance

The Port of Québec Corporation assumes all risks with respect to compensation claims for occupational injury. Any costs arising from these risks are recorded in the accounts in the year they can be reasonably estimated.

(e) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on the estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(f) Employee benefits

The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave, sick leave and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

3. Investments

Investments, which are direct and guaranteed securities of Canada, are:

	1985		1984	
	Cost	Market value	Cost	Market value
	$	$	$	$
Current	33,109,060	33,101,895	30,205,593	30,341,504
Long-term	6,597,511	7,387,483	6,571,166	6,468,502

PORT OF QUÉBEC CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1985—*Concluded*

4. Fixed assets

(a) Summary

	Cost	Accumulated depreciation	1985 Net	1984 Net
	$	$	$	$
Land	11,043,597		11,043,597	11,043,602
Dredging	4,561,341	3,867,125	694,216	722,277
Berthing structures	22,167,990	15,463,013	6,704,977	6,713,975
Buildings	28,693,605	12,123,430	16,570,175	17,110,342
Utilities	3,399,155	1,749,632	1,649,523	1,514,494
Roads and surfaces	5,847,726	2,473,865	3,373,861	3,070,326
Machinery and equipment	501,590	362,788	138,802	30,963
Office furniture and equipment	333,040	164,290	168,750	88,517
Works under construction	4,349,081		4,349,081	737,193
	80,897,125	36,204,143	44,692,982	41,031,689

(b) Capital expenditure commitments

As at December 31, 1985, contractual obligations for the completion, construction and purchase of fixed assets are estimated at $533,700, of which most will be expended in the year ending December 31, 1986.

5. Contingencies

Claims aggregating approximately $5,600,000 have been received by the Corporation in respect of lawsuits, warranties, collective agreements, damages allegedly suffered on Corporation property and various other matters in dispute. These amounts do not appear in the financial statements. In the Corporation's view, its position is defensible and these claims should not result in any material financial liability.

6. Subsequent event

The Government of Canada has requested cash contributions from various Crown corporations. As part of this cash recovery exercise, there was a request for a contribution of $133,000,000 from Canada Ports Corporation and the six Local Port Corporations, of which an amount of $83,000,000 is payable by March 31, 1986 and $50,000,000 by June 30, 1986.

The Board of Directors of Port of Québec Corporation has resolved at its meeting of February 17, 1986 to remit to the Government of Canada the sum of $13,881,092 representing the Corporation's share of the requested contribution of $83,000,000 payable by March 31, 1986. The Corporation's share of the $50,000,000 payable by June 30, 1986 has not been considered by the Board.

SUMMARY PAGE

PRINCE RUPERT PORT CORPORATION

MANDATE

Administration, management and control of the Prince Rupert Harbour and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Prince Rupert Port Corporation was established on June 1, 1984 pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. The port recently completed development of a new site on Ridley Island. A modern high-efficiency grain elevator and coal shipment terminal (constructed by private interests) went into service at this site in 1984. In 1985, 10.1 million tonnes was handled, 7.2 million tonnes of which was coal.

CORPORATION DATA

HEAD OFFICE	110 Third Avenue, West Prince Rupert, British Columbia V8J 1K8
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	June 1, 1984; letters patent of incorporation issued by the Minister of Transport pursuant to subsection 6.2(1) of the *Canada Ports Corporation Act*.
CHIEF EXECUTIVE OFFICER	Vacant
CHAIRMAN	A.T. Sheppard
AUDITOR	Thorne Riddell

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	**Seven months* to Dec. 31, 1984**
At the end of the year		
Total Assets	81.2	79.6
Obligations to the private sector	nil	nil
Obligations to Canada**	76.6	76.6
Equity of Canada	(7.8)	(10.0)
Cash from Canada in the period		
— budgetary	0.3	1.3
— non-budgetary	nil	nil

* The Corporation began operations on June 1, 1984.

** Includes $49.5 million conditional obligation.

PRINCE RUPERT PORT CORPORATION

AUDITORS' REPORT

THE HONOURABLE DONALD MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of Prince Rupert Port Corporation as at December 31, 1985 and the statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and Regulations, the Canada Ports Corporation Act, and the Letters Patent and By-laws of the Corporation.

Thorne Riddell
Chartered Accountants

Vancouver, Canada
February 6, 1986

BALANCE SHEET AS AT DECEMBER 31, 1985

ASSETS	1985	1984
	$	$
Current assets		
Cash	87,341	61,970
Investments (Note 3)	7,202,309	5,840,910
Accounts receivable	630,199	611,315
Due from Canada		82,839
Materials and supplies	88,092	73,470
	8,007,941	6,670,504
Fixed assets (Note 4)	73,214,955	72,919,342
	81,222,896	79,589,846

LIABILITIES	1985	1984
	$	$
Current liabilities		
Accounts payable and accrued liabilities	382,346	616,615
Payable to Canada	249,190	
Grants in lieu of municipal taxes	495,821	963,822
Deferred revenues	229,263	343,941
	1,356,620	1,924,378
Long-term debt		
Loans from Canada (Note 5)	38,110,991	38,110,991
Recoverable contribution from Canada (Note 6)	49,511,864	49,511,928
	87,622,855	87,622,919
EQUITY OF CANADA		
Contributed capital	678,275	678,275
Deficit	8,434,854	10,635,726
	(7,756,579)	(9,957,451)
	81,222,896	79,589,846

Approved by the Board:

ALLAN T. SHEPPARD
Chairman

KENNETH R. KRAUTER
General Manager and Chief Executive Officer

PRINCE RUPERT PORT CORPORATION—*Continued*

STATEMENT OF INCOME AND DEFICIT

	Year ended December 31 1985	Seven months ended December 31 1984
	$	$
Revenue from operations	10,622,368	5,903,491
Expenses		
Operating and administrative	7,771,561	4,547,456
Depreciation	918,496	488,843
Grants in lieu of municipal taxes	27,661	164,831
	8,717,718	5,201,130
Income from operations	1,904,650	702,361
Interest income	655,246	400,579
Loss on disposal of fixed assets	(359,024)	(64,772)
Net income	2,200,872	1,038,168
Deficit at beginning of period	10,635,726	11,673,894
Deficit at end of period	8,434,854	10,635,726

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31 1985	Seven months ended December 31 1984
	$	$
Cash resources provided by (used in) operating activities		
Net income	2,200,872	1,038,168
Items not involving funds		
Depreciation	918,496	488,843
Loss on sale of fixed assets	359,024	64,772
Cash generated from (used for) operating working capital	(850,454)	650,475
	2,627,938	2,242,258
Cash resources provided by (used in) financing activities		
Capital grants (net)	331,965	(1,302,473)
Cash resources provided by (used in) investing activities		
Proceeds from sale of fixed assets	232	37,000
Additions to fixed assets (net of capital grants)	(1,573,365)	(618,884)
	(1,573,133)	(581,884)
Increase in cash and investments	1,386,770	357,901
Cash and investments at beginning of period	5,902,880	5,544,979
Cash and investments at end of period	7,289,650	5,902,880

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 1985

1. Local Port Corporation

The Prince Rupert Port Corporation ("the Corporation") was established effective June 1, 1984 as a local port corporation pursuant to the Canada Ports Corporation Act ("the Act"). The Corporation is exempt from income taxes.

On June 1, 1984, pursuant to the Act, all the assets and liabilities of the Canada Ports Corporation relating to the Port of Prince Rupert were transferred to the Corporation at their book value as recorded by the Canada Ports Corporation. The net liabilities assumed were recorded as contributed capital of $678,275 and a deficit of $11,673,894. Accordingly, the financial statements are prepared as though the Prince Rupert Port Corporation had operated these facilities since their inception.

2. Significant accounting policies

(a) Investments

The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

(b) Fixed assets

Fixed assets are recorded at cost. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

(c) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(d) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(e) Employee benefits

The Corporation accrues in its accounts annually the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years.

3. Investments

	1985	1984
	$	$
Amortized cost	7,202,309	5,840,910
Market value	7,188,651	5,857,165

PRINCE RUPERT PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1985—*Concluded*

4. Fixed assets

(a) Summary

		1985			1984
	Depreciation rates	Cost	Accumulated depreciation	Net	Net
	%	$	$	$	$
Land		60,159,561		60,159,561	60,090,585
Dredging	2.5-6.7	5,177	1,036	4,141	4,271
Berthing structures	2.5-10	8,562,554	2,167,089	6,395,465	6,663,925
Buildings	2.5-10	2,348,687	263,564	2,085,123	1,776,546
Utilities	3.3-10	2,609,710	965,891	1,643,819	1,747,729
Roads and surfaces	2.5-10	3,581,379	1,340,695	2,240,684	1,775,555
Machinery and equipment	5-10	1,699,805	1,072,702	627,103	796,985
Office furniture and equipment	20	122,714	63,655	59,059	63,746
		79,089,587	5,874,632	73,214,955	72,919,342

(b) Capital grants

During 1985, the Corporation received a capital grant of $244,968 (seven months ended December 31, 1984—$652,007) from the Province of Alberta.

5. Loans from Canada

	1985	1984
	$	$
Non-interest bearing loans with indefinite due date	27,084,979	27,084,979
Accrued interest on loans not due and payable	11,026,012	11,026,012
	38,110,991	38,110,991

6. Recoverable contribution from Canada

A recoverable contribution of $50,400,000 was approved for the construction of the infrastructure for the coal terminal facility on Ridley Island. The total contribution received and/or receivable as of December 31, 1985 was $49,511,864.

The total recoverable contribution is interest-free until April 1, 1989, and thereafter bears interest at approximately 13.9%.

Principal and interest on $48,300,000 of the contribution are repayable over 20 years, commencing on April 1, 1989, contingent upon the revenues received from a direct coal throughput surcharge. The balance of $1,211,864 is repayable on a fixed, blended principal and interest basis over 20 years, commencing on April 1, 1989.

7. Related party transactions

(a) During the year ended December 31, 1985, the Corporation received revenue of $1,250,370 (seven months ended December 31, 1984—$580,302) from Ridley Terminals Inc., a company in which the Canada Ports Corporation has a significant investment. Accounts receivable as at December 31, 1985 include $186,760 (1984—$225,723) due from Ridley Terminals Inc.

(b) During the year the Corporation paid $521,297 (seven months ended December 31, 1984—$245,943) to Canada Ports Corporation as its share of that corporation's head office expense.

8. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

SUMMARY PAGE

ROYAL CANADIAN MINT

MANDATE

To produce and arrange for the production and supply of coins of the currency of Canada; produce coins of currency of countries other than Canada; melt, assay and refine gold, silver and other metals; buy and sell gold, silver and other metals, etc.; mint coins and carry out other related activities in anticipation of profit.

BACKGROUND

The Royal Canadian Mint was a departmental agency until 1969, when it was incorporated pursuant to legislation. For minting circulating Canadian coinage it receives payment on a cost-recovery basis. Minting of numismatic and bullion coins, etc., yields profit which is paid to Canada. Occasionally it receives loans from Canada for working capital and to finance capital projects.

CORPORATION DATA

HEAD OFFICE	355 River Road Tower 'B', 6th Floor Ottawa, Ontario K1A 0G8
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Monique Vézina, P.C., M.P.
DEPARTMENT	Supply and Services
DATE AND MEANS OF INCORPORATION	April 1, 1969 pursuant to the *Royal Canadian Mint Act* of *Government Organization Act* 1968-69, C. 28, Section 71, (R.S.C. 1970, C. R-8).
CHIEF EXECUTIVE OFFICER	Maurice Lafontaine
CHAIRMAN	James Corkery
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	**1984**	**1983**	**1982**
At the end of the year				
Total assets	115.9	72.4	73.1	83.5
Obligations to the private sector	0.6	0.6	0.8	nil
Obligations to Canada*	76.7	58.7	49.3	67.9
Equity of Canada	1.0	1.0	1.0	1.0
Cash from (to) Canada in the year				
— budgetary	(10.7)	nil	(24.4)	nil
— non-budgetary, net	19.8	(2.1)	(2.1)	(2.1)

* Includes net earnings due to Canada.

ROYAL CANADIAN MINT

AUDITOR'S REPORT

THE HONOURABLE STEWART D. McINNES, P.C., M.P.
MINISTER OF SUPPLY AND SERVICES

I have examined the balance sheet of the Royal Canadian Mint as at December 31, 1985 and the statements of earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Royal Canadian Mint Act and by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
February 21, 1986

BALANCE SHEET AS AT DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984
Current		
Cash	29,745	23,814
Accounts receivable		
Government departments	2,370	3,132
Other	5,120	4,067
Inventories (Note 4)	38,604	22,870
Prepaid expenses (Note 5)	286	286
	76,125	54,169
Long-term		
Property, plant and equipment (Note 6)	30,771	17,328
Deferred expenses (Note 7)	9,047	869
	115,943	72,366

LIABILITIES	1985	1984
Current		
Accounts payable		
Government departments	1,405	1,031
Other	16,640	6,859
Contractors' holdback	1,082	
Due to Government of Canada		
Net earnings (Note 8)	42,978	44,801
Current portion of long-term loans (Note 10)	3,729	2,132
Accrued interest on long-term loans	818	349
Deferred revenues (Note 9)	13,943	567
	80,595	55,739
Long-term		
Loans from Government of Canada (Note 10)	30,003	11,763
Obligation under capital lease (Note 11)	355	578
Provision for employee termination benefits	3,990	3,286
	34,348	15,627
EQUITY OF CANADA		
Reserve for losses (Note 2)	1,000	1,000
	115,943	72,366

Approved by management:

J. C. CORKERY
President and Master

J. UBERIG
Vice-President, Administration and Finance

Approved by the Board:

R. V. HESSION
Chairman

ROYAL CANADIAN MINT—*Continued*

STATEMENT OF EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Revenues		
Gold Maple Leaf coins	874,693	583,976
Canadian numismatic coins	37,900	41,891
Canadian circulating coins	30,774	32,148
1988 Olympic Coin Program	7,316	
Foreign contracts	9,138	10,053
Refinery	4,511	4,276
Miscellaneous	1,239	1,588
	965,571	673,932
Expenses (Note 12)		
Cost of materials used	899,189	616,493
Salaries, wages and benefits	21,937	19,729
Advertising	11,884	9,673
Utilities and supplies	3,854	4,409
Transportation and communications	4,014	3,147
Professional and special services	6,203	2,921
Depreciation	1,932	2,206
Interest on long-term loans and obligation under capital lease	2,226	1,539
Building and equipment rental	1,607	1,021
Miscellaneous	1,661	1,420
	954,507	662,558
Net earnings before extraordinary item	11,064	11,374
Deduct: extraordinary item (Note 13)	2,187	
Net earnings for the year (Note 2)	8,877	11,374

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Source of funds		
Operations		
Net earnings for the year	8,877	11,374
Items not affecting funds		
Depreciation	1,932	2,206
Provision for employee termination benefits	703	104
	11,512	13,684
Loan from Government of Canada	21,970	5,000
	33,482	18,684
Application of funds		
Net earnings for the year, due to Government of Canada	8,877	11,374
Decrease in long-term loans and obligation under capital lease	3,952	7,162
Additions to property, plant and equipment	15,375	5,859
Increase in deferred expenses	8,178	869
	36,382	25,264
Decrease in funds	(2,900)	(6,580)
Working capital at beginning of the year		
As previously reported	(1,570)	170
Reclassification of loans to long-term liabilities		4,840
As restated	(1,570)	5,010
Working capital (deficiency) at end of the year	(4,470)	(1,570)

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1985

1. Authority and objectives

The Mint was incorporated in 1969 by the Royal Canadian Mint Act and is an agent of Her Majesty named in Part I of Schedule C to the Financial Administration Act. The Mint operates through the Consolidated Revenue Fund.

The objectives of the Mint are to produce coins in anticipation of profits and carry out other related activities.

2. Statutory financial limitations

At the request of the Mint and on the recommendation of the Minister of Supply and Services, the Minister of Finance may make loans to the Mint on such terms and conditions as are approved by the Governor in Council for:

(a) meeting establishment and operating expenses of the Mint, in amounts not exceeding in the aggregate $5 million;

(b) financing the costs of capital projects that are approved by the Governor in Council; and

(c) temporary purposes, in amounts not exceeding in the aggregate $1 million, and each loan shall be repaid within twelve months from the day on which the loan was made.

The total amount outstanding at any time of loans made for (a) and (b) above shall not exceed $35 million.

Furthermore, the Mint may make provision from earnings for a reserve against possible losses, but the aggregate amount in the reserve at any one time shall not exceed $1 million. The Mint's net earnings for the year shall be applied:

(a) firstly, to previous years' losses that could not be met by a charge to the reserve;

(b) secondly, to the reserve; and

(c) any excess, to the revenues of Canada.

3. Significant accounting policies

(a) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the transaction date. Assets and liabilities denominated in foreign currency at the balance sheet date are translated into Canadian dollars at the exchange rate in effect at that date.

(b) Inventories

Raw materials, work in process and finished goods are valued at the lower of cost and net realizable value, cost being determined by the average cost method.

Operating and maintenance supplies are valued at the lower of cost and replacement cost, cost being determined by the average cost method.

(c) Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated under the straight-line method at the following annual rates:

Land improvements	5%
Buildings	5%
Equipment	10%
Equipment under capital lease	20%
Leasehold improvements	50%

Expenditures related to construction in progress are charged as incurred to property, plant and equipment. Depreciation commences in the year of completion in accordance with Corporation policy.

ROYAL CANADIAN MINT—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Continued*

(d) Employee termination benefits

According to their collective agreement and terms of employment, employees are entitled to termination benefits. The liability for these benefits is recorded when earned by the employees.

(e) Pension plan

The employees of the Mint participate in the Public Service Superannuation Plan, which is administered by the Government of Canada. Contributions to the plan are required from both the employees and the Mint. These contributions represent the Mint's total liability and are recorded on a current basis.

4. Inventories

	1985	1984
	(in thousands of dollars)	
Raw materials	19,308	15,612
Work in process	4,888	1,936
Finished goods	11,107	3,200
Operating and maintenance supplies	3,301	2,122
	38,604	22,870

In order to facilitate the production of gold coins, the Mint borrows the quantity of gold required and pays interest based on the value of gold established on the London market. As at December 31, 1985 a total of 1,360,019 ounces were borrowed and are not reflected in these financial statements.

Furthermore, the Mint utilizes in its refining process approximately 135,000 ounces of gold which are not included in inventories. Following Treasury Board's decision, the Mint, on behalf of Canada, will sell this quantity of gold and remit the proceeds to the Consolidated Revenue Fund in 1986.

5. Prepaid expenses

	1985	1984
	(in thousands of dollars)	
Insurance, postage and freight	154	204
Rent	93	
Other	39	82
	286	286

6. Property, plant and equipment

	1985			1984
	Cost	Accumulated depreciation	Net book value	Net book value
	(in thousands of dollars)			
Land	619		619	619
Land improvements	976	535	441	490
Buildings	10,937	5,916	5,021	5,525
Equipment	19,625	11,758	7,867	7,376
Equipment under capital lease	1,006	500	506	706
Construction in progress	16,140		16,140	2,344
Leasehold improvements	472	295	177	268
	49,775	19,004	30,771	17,328

The consolidation project of the facilities in the National Capital Region is estimated at $24.5 million. Expenditures to December 31, 1985 total $16.1 million and the remainder will be spent in 1986.

7. Deferred expenses

Included under this caption are expenses related to the launching of the 1988 Olympic Coin Program totalling $9.0 million. These expenses are recorded at cost and are amortized on the basis of anticipated sales over the duration of the program from 1985 to 1988 inclusively; $1.7 million were amortized in 1985.

8. Due to Government of Canada, net earnings

	1985	1984
	(in thousands of dollars)	
Balance at beginning of the year	44,801	33,427
Net earnings for the year	8,877	11,374
Paid during the year	(10,700)	
Balance at end of the year	42,978	44,801

9. Deferred revenues

	1985	1984
	(in thousands of dollars)	
1988 Olympic Coin Program	10,109	
Canadian numismatic coins	411	567
Foreign contracts	3,423	
	13,943	567

10. Loans from Government of Canada

These loans bear interest at various annual rates ranging from 7.625 percent to 12 percent and are repayable according to the following schedule:

	(in thousands of dollars)
1986	3,729
1987	3,129
1988	2,989
1989	7,673
1990	2,673
1991-1998	13,539
	33,732
Current portion	3,729
	30,003

The interest expense on these loans amounts to $2.1 million for the year (1984—$1.4 million).

ROYAL CANADIAN MINT—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

11. Obligation under capital lease

The future minimum lease payments under capital lease are as follows:

	(in thousands of dollars)
1986	283
1987	283
1988	102
Total future minimum lease payments	668
Less: amount representing interest	90
Present value of obligation under capital lease	578
Less: current portion	223
Long-term obligation under capital lease	355

The capital lease was recorded at an amount equal to the present value of the minimum lease payments using an implicit lease interest rate of 14.3 percent. This obligation expires in 1988.

12. Expenses

Expenses include the cost of goods sold detailed as follows:

	1985	1984
	(in thousands of dollars)	
Materials used	899,189	616,493
Direct labour	2,904	2,336
Manufacturing overhead expenses	21,831	21,398
	923,924	640,227

13. Extraordinary item

The Mint introduced an early retirement program effective January 1, 1985 in an effort to minimize the adverse effects of organizational changes necessitated by the consolidation of the facilities in the National Capital Region. The total expenditure is reflected in the statement of earnings as an extraordinary item.

14. Related party transactions

Included in these financial statements are transactions with the Department of Finance relating to the borrowing, refining and purchasing of gold and silver. These transactions were conducted in the normal course of business, under the same terms and conditions that apply to unrelated parties.

15. Commitments

The Mint is committed to purchase the silver requirements for the 1988 Olympic Coin Program. $26.0 million will be payable in 1986 and $8.9 million will be payable in 1987.

16. Proposed amendments to the Act

The Royal Canadian Mint has proposed amendments to the Mint Act including a financial restructuring that would enable it to retain its net earnings.

SUMMARY PAGE

ST. ANTHONY FISHERIES LIMITED

MANDATE

To operate the St. Anthony's fish plant in the year 1982 in the most efficient and economic manner possible.

BACKGROUND

The corporation is inactive. Its dissolution is to be effected soon, pursuant to Bill C-60 which was given Royal Assent on October 29, 1985.

CORPORATION DATA

HEAD OFFICE	Saltfish Building Torbay Road, P.O. Box 6068 St. John's, Newfoundland A1C 5X8
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Tom Siddon, P.C., M.P.
DEPARTMENT	Fisheries and Oceans
DATE AND MEANS OF INCORPORATION	May 21, 1982, pursuant to the Newfoundland *Companies Act* (R.S.N., C. 54).
CHIEF EXECUTIVE OFFICER	Donald D. Tansley
CHAIRMAN	Vacant
AUDITOR	Ernest R. Spurrell

ST. ANTHONY FISHERIES LIMITED

THE CORPORATION HAS NEGLIGIBLE ASSETS AND WAS INACTIVE
DURING THE REPORT PERIOD

SUMMARY PAGE

ST. JOHN'S PORT CORPORATION

MANDATE

Administration, management and control of the Harbour of St. John's and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

St. John's Port Corporation was established on June 1, 1985 pursuant to the national ports policy to create local ports corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. Total cargo handled by the port in 1985 amounted to 1.1 million tonnes including 0.6 million tonnes in bulk petroleum products handled by private facilities; however, the port is becoming increasingly important as a supply base for servicing offshore oil development.

CORPORATION DATA

HEAD OFFICE	3 Water Street St. John's, Nfld. A1C 5X8
STATUS	—Schedule C, Part II —an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	June 1, 1985; letters patent issued by the Minister of Transport pursuant to subsection 6.2(1) of the *Canada Ports Corporation Act*.
CHIEF EXECUTIVE OFFICER	David Fox
CHAIRMAN	Fred Milley
AUDITOR	Doane, Raymond

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	Seven Months to Dec. 31, 1985
At the end of the year	
Total Assets	16.9
Obligations to the private sector	nil
Obligations to Canada	1.6
Equity of Canada	13.2
Cash from Canada in the period	
—budgetary	nil
—non-budgetary	nil

ST. JOHN'S PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DONALD MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of the St. John's Port Corporation as at December 31, 1985, and the statements of income and surplus and changes in financial position for the seven months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the seven months then ended in accordance with generally accepted accounting principles.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and Regulations, the Canada Ports Corporation Act and the by-laws of the Corporation.

Doane Raymond
Chartered Accountants

St. John's, Canada
February 14, 1986

BALANCE SHEET AS AT DECEMBER 31, 1985

ASSETS	1985
	$
Current	
Cash	2,646
Investments (Note 3)	5,614,056
Accounts receivable	351,506
	5,968,208
Investments (Note 3)	946,151
Fixed (Note 4)	9,940,186
	16,854,545

LIABILITIES	1985
	$
Current	
Accounts payable and accrued liabilities	1,348,692
Grants in lieu of municipal taxes	57,092
Deferred revenues	226,184
Current portion of loans from Canada	51,983
	1,683,951
Accrued employee benefits	72,985
Loans from Canada (Note 5)	1,896,773
	3,653,709
EQUITY	
Contributed capital	11,585,318
Surplus	1,615,518
	13,200,836
	16,854,545

Contingency (Note 6)
Commitments (Note 7)

On behalf of the Board:

FRED MILLEY
Chairman

DAVID J. FOX
General Manager and Chief Executive Officer

ST. JOHN'S PORT CORPORATION—*Continued*

STATEMENT OF INCOME AND SURPLUS SEVEN MONTHS ENDED DECEMBER 31, 1985

	1985
	$
Revenue from operations	1,452,668
Operating and administrative expenses	864,410
Depreciation	211,044
Grants in lieu of municipal taxes	(60,670)
	1,014,784
Income from operations	437,884
Investment income—Net	313,728
Net income	751,612
Surplus assumed	863,906
Surplus, end of period	1,615,518

STATEMENT OF CHANGES IN FINANCIAL POSITION SEVEN MONTHS ENDED DECEMBER 31, 1985

	1985
	$
Cash provided from (used for)	
Operations	
Net income	751,612
Depreciation	211,044
Other non-cash items	6,899
	969,555
Cash provided from (used for)	
Accounts receivable	(54,597)
Accounts payable and accrued liabilities	1,066,200
Grants in lieu of municipal taxes	(60,670)
Deferred revenue	74,018
	1,994,506
Financing	
Reduction of loans from Canada	(47,547)
Investing	
Purchase of fixed assets	(2,020,945)
Net cash used	(73,986)
Cash and temporary investments assumed	5,690,688
Cash and temporary investments, end of period	5,616,702

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1985

1. In accordance with the Canada Ports Corporation Act, a petition for the establishment of a local corporation at the Port of St. John's was approved and the St. John's Port Corporation was established effective June 1, 1985.

   In accordance with the Canada Ports Corporation Act, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation—Port of St. John's to the St. John's Port Corporation.

2. Significant accounting policies

   (a) Investments

   The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

   (b) Fixed assets

   Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

   Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

   (c) Pension costs

   All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

   (d) Grants in lieu of municipal taxes

   The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement. An audit was completed in 1985 and a reduction of $85,695 was recorded in grants related to prior years.

   (e) Employee benefits

   The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years in accordance with its policy.

3. Investments

	Amortized cost	Face amount
	$	$
Short-term	5,614,056	5,810,600
Long-term	946,151	1,015,838

4. Fixed assets

	Depreciation rate	Cost	Accumulated depreciation	Net
	%	$	$	$
Land		3,370,578		3,370,578
Berthing structures	2.5-10	7,776,388	4,914,659	2,861,729
Buildings	2.5-10	1,872,985	1,248,312	624,673
Utilities	3.3-10	494,054	398,023	96,031
Roads and surfaces	2.5-10	713,084	559,250	153,834
Machinery and equipment	5-100	231,625	65,423	166,202
Office furniture and equipment	20	84,564	49,290	35,274
Projects under construction		2,631,865		2,631,865
		17,175,143	7,234,957	9,940,186

ST. JOHN'S PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

5. Loans from Canada

	$
Loans, 9.33%, maturing in 2000, payable in equal annual instalments of principal and interest of $198,132. The loans are unsecured	1,566,437
Principal instalments payable within one year	51,983
	1,514,454
Accrued interest on loans	382,319
	1,896,773

Annual principal repayment in each of the next five years are as follows:

	$
1986	51,983
1987	56,833
1988	62,136
1989	67,933
1990	74,271

6. Contingent liability

Claims aggregating approximately $5,000,000 arising from alleged damages suffered on the Corporation's property have been received by the Corporation. The Corporation has denied any liability and no material loss is anticipated.

7. Commitments

Funds have been committed on capital projects as at the balance sheet date in the amount of $394,000. The full amount is expected to be expended during 1986.

8. Subsequent event

The Government of Canada has requested cash contributions from various Crown corporations. As part of this cash recovery exercise, there was a request for a contribution of $133,000,000 from the Ports Canada system made up of the Canada Ports Corporation and the six Local Port Corporations, of which $83,000,000 is payable by March 31, 1986, and $50,000,000 by June 30, 1986.

The Board of Directors of the St. John's Port Corporation has resolved to remit to the Government of Canada the sum of $1,599,000 representing the Corporation's share of the requested contribution of $83,000,000 payable by March 31, 1986. The Corporation's share of the $50,000,000 payable by June 30, 1986 has not been determined by the Board.

SUMMARY PAGE

ST. LAWRENCE SEAWAY AUTHORITY, THE

MANDATE

Construction, operation and maintenance of canals, bridges, works and other property related to the deep waterway between the Port of Montreal and Lake Erie, known as the St. Lawrence Seaway.

BACKGROUND

The St. Lawrence Seaway Authority (SLSA) was established in 1954 to construct and operate the Seaway in conjunction with an appropriate authority in the United States and to construct, maintain and operate bridges and other works and property incidental thereto as the Governor in Council may deem to be necessary. The Authority operates 13 locks and 21 moveable bridges in Canadian territory along the waterway, as well as four high-level bridges traversing the St. Lawrence River. Two locks in the United States are operated by the Saint Lawrence Seaway Development Corporation.

A wholly-owned subsidiary, the Seaway International Bridge Corporation, Ltd. (SIBC), was established in 1962 to manage the international bridge at Cornwall, Ontario. A second wholly-owned subsidiary, the Jacques Cartier and Champlain Bridges Incorporated (JCCB), was established to manage the two high-level bridges in Montreal when these were transferred from the National Harbours Board in 1978. A third wholly-owned subsidiary, Great Lakes Pilotage Authority, Ltd. is a parent Crown corporation for the purposes of the *Financial Administration Act*. The Canadian span of the Thousand Islands Bridge at Lansdowne, Ontario has been directly administered by the Authority since this property reverted to Canada in 1976.

CORPORATION DATA

HEAD OFFICE	Place de Ville Tower A 18th Floor 320 Queen Street Ottawa, Ontario K1R 5A3
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	July 1, 1954; pursuant to section 3 of the *St. Lawrence Seaway Authority Act* (R.S.C. 1970, C. S-1).
CHIEF EXECUTIVE OFFICER AND CHAIRMAN	W.A. O'Neil
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	645.3	668.9	668.2	664.4
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	210.0	210.0	210.0	210.0
Equity of Canada	407.7	432.5	434.6	434.3
Cash from Canada in the period				
— budgetary	nil	3.0	3.0	nil
— non-budgetary	nil	nil	nil	nil

THE ST. LAWRENCE SEAWAY AUTHORITY

AUDITOR'S REPORT

THE HONOURABLE DON MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

I have examined the balance sheet of The St. Lawrence Seaway Authority as at March 31, 1986 and the statements of operations, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, The St. Lawrence Seaway Authority Act and the by-laws of the Authority.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 30, 1986

BALANCE SHEET AS AT MARCH 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Current		
Cash and term deposits	2,248	13,467
Deposit in Trust (Note 3)	1,863	
Canada bonds	13,296	
Accounts receivable	1,526	3,092
Accrued interest receivable	1,726	2,197
Supplies inventory	2,779	2,432
	23,438	21,188
Long-term receivables (Note 4)	309	455
Investments		
Canada bonds (Note 5)	15,810	36,558
Deposits in Consolidated Revenue Fund (Note 6)	13,000	13,000
Subsidiary companies (Note 7)	10	10
	28,820	49,568
Fixed (Note 8)	592,760	597,657
	645,327	668,868

LIABILITIES	1986	1985
Current		
Accounts payable	4,869	3,677
Accrued liabilities (Note 3)	10,468	9,799
	15,337	13,476
Long-term		
Accrued employee termination benefits	12,250	12,897
Deferred interest (Note 9)	210,000	210,000
	222,250	222,897
	237,587	236,373
Contingencies (Note 12)		
EQUITY OF CANADA		
Contributed capital (Note 9)	624,950	624,950
Deficit	(217,210)	(192,455)
	407,740	432,495
	645,327	668,868

Approved:

W. A. O'NEIL
President

R. J. FORGUES
Comptroller and Treasurer

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986					1985
	Montreal-Lake Ontario Section	Welland Section	Total Seaway	Thousand Islands Bridge	Total	Total
Revenues						
Tolls	24,538	23,260	47,798		47,798	59,462
Leases and licenses	456	1,835	2,291	85	2,376	2,382
Other	488	558	1,046	770	1,816	2,069
	25,482	25,653	51,135	855	51,990	63,913
Expenses						
Operating	6,867	10,316	17,183		17,183	16,046
Maintenance	9,695	15,001	24,696	127	24,823	30,876
Administration	4,418	4,544	8,962	255	9,217	8,809
Headquarters	3,717	4,822	8,539	36	8,575	8,413
Depreciation	4,221	4,826	9,047	32	9,079	8,851
Employee termination benefits	622	865	1,487		1,487	1,203
	29,540	40,374	69,914	450	70,364	74,198
Income (loss) from operations before unusual expense	(4,058)	(14,721)	(18,779)	405	(18,374)	(10,285)
Unusual expense items (Note 13)	(1,431)	(10,843)	(12,274)		(12,274)	
Income (loss) from operations	(5,489)	(25,564)	(31,053)	405	(30,648)	(10,285)
Investment income	2,547	3,305	5,852	41	5,893	7,049
Income (loss) for the year before extraordinary item	(2,942)	(22,259)	(25,201)	446	(24,755)	(3,236)
Final adjustment for settlement of claim						1,134
Net income (loss) for the year	(2,942)	(22,259)	(25,201)	446	(24,755)	(2,102)

STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986			1985
	Seaway	Thousand Islands Bridge	Total	Total
Deficit (retained earnings), beginning of the year	194,050	(1,595)	192,455	190,353
Loss (net income) for the year	25,201	(446)	24,755	2,102
Deficit (retained earnings), end of the year	219,251	(2,041)	217,210	192,455

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986
(in thousands of dollars)

	1986			1985
	Seaway	Thousand Islands Bridge	Total	Total
Source of funds				
Operations				
Income (loss) for the year before extraordinary item	(25,201)	446	(24,755)	(3,236)
Items not requiring an outlay of funds				
Depreciation	9,047	32	9,079	8,851
Employee termination benefits	1,487		1,487	1,203
Loss (gain) on disposal of fixed assets	175		175	146
	(14,492)	478	(14,014)	6,964
Final adjustment for settlement of claim				1,134
Reduction in long-term receivables	146		146	140
Proceeds from sale of Canada bonds	7,452		7,452	962
Transfer of Canada bonds to current assets	13,296		13,296	
	6,402	478	6,880	9,200
Application of funds				
Fixed asset additions	4,357		4,357	4,559
Transfer of accrued employee termination benefits to current liabilities	2,134		2,134	731
Deposit in Consolidated Revenue Fund				8,000
	6,491		6,491	13,290
Increase (decrease) in working capital	(89)	478	389	(4,090)
Working capital, beginning of the year	7,487	225	7,712	11,802
Working capital, end of the year	7,398	703	8,101	7,712

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1986

1. Authority and objectives

The St. Lawrence Seaway Authority was established in 1954 under The St. Lawrence Seaway Authority Act and is classified as a parent Crown corporation under Schedule C Part I of the Financial Administration Act.

The Authority was established to construct and operate a deep waterway between the Port of Montreal and Lake Erie together with such works and other property, including bridges incidental to the deep waterway, as deemed necessary by the Governor in Council.

2. Accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. A summary of significant accounting policies follows:

(a) Supplies inventory

Supplies inventory comprises equipment and supplies used in the operation and maintenance of the Seaway and are recorded at cost.

(b) Investments in subsidiary companies

Investments in wholly-owned subsidiary companies are recorded at cost. The financial statements of the subsidiary companies have not been consolidated in these financial statements because changes in the equity of the subsidiaries do not accrue to the Authority. Separate audited financial statements for each of the subsidiary companies are available to the public.

(c) Fixed assets

Fixed assets are recorded at cost. Replacements and major improvements which increase the capacity of the deep waterway system or extend the estimated useful lives of existing assets are capitalized. Repairs and maintenance are charged to operations as incurred. The cost of assets sold, retired, or abandoned, and the related accumulated depreciation are removed from the accounts on disposal. Gains or losses on disposals are credited or charged to operations.

Depreciation is recorded using the straight-line method based on the estimated useful lives of the assets.

(d) Employee termination benefits

Employees of the Authority are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to employees.

(e) Pension plan

All employees of the Authority are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. These contributions represent the total liability of the Authority and are recognized in the accounts on a current basis.

(f) Thousand Islands Bridge

In September 1976, the Minister of Transport entrusted the Authority with the management and operation of the Thousand Islands Bridge, while the real property was vested in the name of Her Majesty in Right of Canada. Subsequent capital expenditures made by the Authority to improve the Bridge have been recorded as fixed assets. The retained earnings of the Bridge represent its cumulative earnings since September 1976.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Continued*

These financial statements have segregated the operations of the Thousand Islands Bridge on the premise that its management and operation by the Authority is independent of Seaway operations.

3. Deposit in Trust

Pending the completion of the transaction on the settlement with railroads relative to the Welland By-Pass, the Authority has transferred funds for the full payment to a trust account, and an equivalent amount is included in accrued liabilities.

4. Long-term receivables

The Authority has entered into long-term contractual agreements for the sale of one parcel of land and for the recovery of costs associated with the construction of certain facilities. Long-term receivables outstanding at March 31 are as follows:

	1986	1985
	(in thousands of dollars)	
5¼% interest, recoverable in blended annual installments of $99,519, maturing July 1986		94
5½% interest, recoverable in blended annual installments of $28,000, maturing in 1995	173	191
Non-interest bearing, recoverable in annual installments of $33,952, maturing in 1990	136	170
	309	455

5. Canada bonds

The long-term investment in Canada bonds at March 31, set aside by the Authority in order to provide for future major capital improvement projects, is as follows:

	1986	1985
	(in thousands of dollars)	
Cost, maturing on varying dates up to 2003	15,810	36,558
Par value	16,000	37,000
Market value	16,616	33,467

6. Deposits in Consolidated Revenue Fund

Consolidated Revenue Fund deposits bearing interest, set aside by the Authority in order to provide for future payments of employee termination benefits, mature on March 31, 1989.

7. Subsidiary companies and related parties

Investments in wholly-owned subsidiary companies consist of the following:

	No. of shares	Cost
		$
Great Lakes Pilotage Authority, Ltd. (GLPA)	15	1,500
The Jacques Cartier and Champlain Bridges Incorporated (JCCB)	1	100
The Seaway International Bridge Corporation, Ltd. (SIBC)	8	8,000
		9,600

During the year ended March 31, 1986, the Authority provided JCCB with certain administration services for which it charged $581,000 (1985—$550,000). At March 31, 1986, $76,000 was outstanding (1985—$46,000).

Each calendar year, SIBC pays a bridge user charge to the Authority (1985—$307,000; 1984—$304,000) to amortize the Authority's construction and interest costs related to the North Channel Bridge. At March 31, 1986, $11.6 million (1985—$11.9 million) in construction and interest costs remained unamortized.

The Canadian Coast Guard provides the Authority with navigational aids services. The fee paid by the Authority for this service in 1985-86 amounted to $525,000 ($500,000 in 1984-85).

8. Fixed assets

	1986				1985
	Depreciation rate	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)				
Seaway					
Land		30,600		30,600	30,654
Channels and canals	1%	249,108	63,692	185,416	187,892
Locks	1%	235,988	80,404	155,584	157,926
Bridges and tunnels	2%	86,587	34,482	52,105	53,453
Buildings	2%	12,124	6,256	5,868	6,015
Equipment	2-20%	17,431	8,234	9,197	8,360
Remedial works	1%	134,531	24,009	110,522	111,876
Interest during construction		32,822		32,822	32,822
Works under construction		9,309		9,309	7,289
		808,500	217,077	591,423	596,287
Thousand Islands Bridge					
Improvements	2%	1,552	215	1,337	1,370
		810,052	217,292	592,760	597,657

Since the unpaid interest on loans from Canada may be forgiven (see Note 9), no depreciation has been provided on interest of $32.8 million capitalized during construction of the Welland Modernization Project.

Following the recent incidents and considering the age of the Welland Canal, the Authority has engaged consultants to examine in detail and report on the structural condition of the system. The report will be received during 1986.

A study on the useful life of fixed assets with emphasis placed on an in-depth review of the present depreciation policy has also been undertaken.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

9. Equity financing

As of April 1, 1977, loans from Canada of $624.95 million were converted to equity by parliamentary appropriation. This amount was recorded as contributed capital. The unpaid interest of $210 million on these loans was not converted and is reflected on the balance sheet as deferred interest. This deferred interest, on which no further accrual of interest is required, is not classified as a current liability because the Crown Corporations Directorate of the Department of Finance and Treasury Board is currently studying this matter with a view to obtain approval from Parliament to have the unpaid interest forgiven. Upon forgiveness, $32.8 million will be credited to fixed assets (see Note 8) and $177.2 million will reduce the deficit.

The parliamentary appropriation authorizing the 1977 conversion of loans from Canada to equity also authorized the Minister to fix, from time to time, the amount that shall be paid by the Authority annually out of its toll revenue as a return on capital. No return on capital has been required to be paid for the years ended March 31, 1986 and 1985.

The Minister of Finance announced in his budget papers, tabled in the House of Commons on May 23, 1985, that the Authority would be required to contribute $30 million to the Government of Canada during the year ending March 31, 1987. On January 13, 1986 Treasury Board informed the Authority that compliance with this requirement has been deferred for an indefinite period. Consequently, no provision has been recorded in the books of the Authority.

10. Income taxes

The Authority, as a prescribed Federal Crown corporation, is subject to the provisions of the Income Tax Act. The Authority is not subject to any provincial income taxes.

Undepreciated capital cost for tax purposes in excess of net book value of capital assets amounted to approximately $190 million. The tax effect of this excess has not been recorded in the accounts.

To date the Authority has accumulated research and development costs of approximately $4 million. Under Section 37 of the Income Tax Act, these costs have been deferred and are available to reduce the taxable income of future years.

11. Commitments

At March 31, 1986, contractual obligations for capital and other expenditures amounted to $2.6 million (1985—$4.3 million).

12. Contingencies

Following the blow-out of a section of a wall at Lock 7 in October 1985, fifty-two court actions totalling $24.8 million were instituted against the Authority by shipping companies alleging economic losses suffered. In addition some 689 intentions to claim have been received. Unless formal court actions are served, these intentions to claim will lapse on June 14, 1986. In the previous year, as a result of the breakdown of the Valleyfield Bridge in November 1984, thirty court actions totalling $16.8 million have been instituted and 285 intentions to claim have been received. The Authority is contesting all these claims, however, their outcome cannot be determined at this time.

The Authority is also the claimant or defendant in certain other pending or threatened claims and lawsuits.

It is the opinion of management that these actions will not result in any material losses to the Authority.

During 1985, the Authority increased its self insurance raising the amount deductible on property insurance coverage to $5 million per incident.

Renewal of insurance against economic losses suffered by other parties could not be obtained.

13. Unusual items

During the course of the year, because of the incidents on the Welland Canal and at the bridges in the Montreal-Lake Ontario Section, the Authority has incurred unusual maintenance expenses, as well as unusual legal expenses. The Authority has also adjusted its accounts to reflect the terms of a settlement with a public utility. The amounts are summarized as follows:

	(in thousands of dollars)
Unusual maintenance expenses	11,218
Legal and Engineering Services	1,631
	12,849
Less adjustments to accounts re: settlement with public utility and others	575
	12,274

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 1

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of The Jacques Cartier and Champlain Bridges Incorporated as at March 31, 1986 and the statements of operations, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, as well as the charter and by-laws of the Corporation.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 2, 1986

BALANCE SHEET AS AT MARCH 31, 1986

ASSETS	1986	1985
	$	$
Current		
Cash and term deposits	3,990,774	4,995,786
Accounts receivable	215,373	160,546
Due from Canada	875,159	
	5,081,306	5,156,332
Fixed		
Land	3,785,545	3,785,545
Bridges	73,276,394	73,276,394
Vehicles and equipment	658,609	608,052
	77,720,548	77,669,991
Less: accumulated depreciation	56,601,673	55,496,168
	21,118,875	22,173,823
	26,200,181	27,330,155

LIABILITIES	1986	1985
	$	$
Current		
Accounts payable	1,471,053	1,317,560
Due to parent company	46,321	45,826
Due to Canada		213,584
Deferred revenues	372,416	387,846
	1,889,790	1,964,816
Long-term		
Provision for employee termination benefits	667,843	611,861
Loans from Canada (Note 3)	66,242,472	66,242,472
Interest in arrears (Note 4)	44,513,580	44,513,580
	111,423,895	111,367,913
	113,313,685	113,332,729
SHAREHOLDER'S DEFICIENCY		
Capital stock		
Authorized—50 shares without par value		
Issued and fully paid—1 share	100	100
Capital deficiency (Note 5)	(71,731,472)	(71,793,882)
Deficit	(15,382,132)	(14,208,792)
	(87,113,504)	(86,002,574)
	26,200,181	27,330,155

Approved by the Board:

WILLIAM A. O'NEIL
Director

JACQUES Y. LAVIGNE
Director

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 1—*Continued*

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1986

	Jacques Cartier Bridge	Champlain Bridge	Total 1986	Total 1985
	$	$	$	$
Revenues				
Tolls		6,515,257	6,515,257	6,028,129
Interest	86,907	260,720	347,627	421,582
Other	58,296	104,189	162,485	197,295
	145,203	6,880,166	7,025,369	6,647,006
Expenses				
Operation	1,044,162	2,862,485	3,906,647	3,628,896
Maintenance	1,921,369	3,337,889	5,259,258	5,356,135
Administration	462,873	1,232,322	1,695,195	1,657,773
Depreciation	78,470	1,038,888	1,117,358	1,126,729
	3,506,874	8,471,584	11,978,458	11,769,533
Loss for the year	3,361,671	1,591,418	4,953,089	5,122,527

STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Balance at beginning of the year	14,208,792	13,133,957
Loss for the year	4,953,089	5,122,527
	19,161,881	18,256,484
Parliamentary appropriation—Operations	3,779,749	4,047,692
Balance at end of the year	15,382,132	14,208,792

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Source of funds		
Parliamentary appropriation		
Operations	3,779,749	4,047,692
Fixed assets	62,410	125,724
	3,842,159	4,173,416
Proceeds from sale of fixed assets	1,367	3,428
	3,843,526	4,176,844
Application of funds		
Operations		
Loss for the year	4,953,089	5,122,527
Items not requiring an outlay of funds		
Depreciation	(1,117,358)	(1,126,729)
Decrease (increase) in the provision for employee termination benefits	(55,982)	51,894
	3,779,749	4,047,692
Acquisition of fixed assets	63,777	129,152
	3,843,526	4,176,844
Change in working capital		
Working capital at beginning of the year	3,191,516	3,191,516
Working capital at end of the year	3,191,516	3,191,516

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986

1. Authority and activities

The Jacques Cartier and Champlain Bridges Incorporated was established under the Canada Business Corporations Act on November 3, 1978 and is a wholly owned subsidiary of The St. Lawrence Seaway Authority, which is a Crown corporation named in Part I of Schedule C to the Financial Administration Act.

The Corporation is partially dependent on the Government of Canada for its financing.

Effective December 1, 1978, the Corporation assumed the responsibility for the operation, maintenance and control of the Jacques Cartier and Champlain bridges and of a portion of the Bonaventure Autoroute, situated in the Montreal area.

2. Significant accounting policies

Fixed assets

Fixed assets acquired from the National Harbours Board (now Canada Ports Corporation) on December 1, 1978 were recorded at their then book values. Subsequent additions are recorded at cost.

Fixed assets are depreciated over their estimated economic lives using the straight-line method, at the following rates:

Jacques Cartier Bridge	4.8%
Champlain Bridge	2.5%
Vehicles and equipment	10% and 20%

The cost of the portion of the Bonaventure Autoroute for which the Corporation is responsible and the initial cost of the Jacques Cartier Bridge are fully depreciated.

Parliamentary appropriation

The parliamentary appropriation covering the loss for the year is reflected in the statement of deficit. In this regard, operating expenses do not include depreciation and any change in the provision for employee termination benefits.

The parliamentary appropriation for financing fixed assets is credited to the capital deficiency.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 1—*Concluded*

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

Any balance of the parliamentary appropriation required to finance the loss for the year and not received at the year end is shown as an amount due from Canada. Any parliamentary appropriation received in excess of requirements is recorded as due to Canada. It is the Corporation's policy to reimburse this amount in the following fiscal year.

Deferred revenues

The estimated value of unredeemed toll tokens and tickets as well as rental revenues collected in advance are recorded as deferred revenues.

Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided under their collective agreements and their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

Pension plan

Employees participate in the Superannuation Plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the Plan. This contribution represents the total liability of the Corporation. Contributions in respect of current service and of admissible past service are expensed when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement.

Expenses

Expenses incurred with respect to the portion of the Bonaventure Autoroute for which the Corporation is responsible are included with those for the Champlain Bridge.

Income tax

As a federal Crown corporation, the Corporation is not subject to provincial income tax. However, it is subject to the federal Income Tax Act from the fact that its parent corporation has been prescribed by regulation under that Act to be a federal Crown corporation. It has incurred substantial losses in prior years which can be carried forward and applied against taxable income of future years.

3. Loans from Canada

	$
Certificate of indebtedness	59,752,867
Advance	6,489,605
	66,242,472

The certificate of indebtedness, dated April 1, 1981, does not bear interest and does not carry a definite due date nor terms of repayment.

The advance, which bears no interest, was recorded in the accounts of Canada as a non-active loan and charged to the accumulated deficit of Canada when it was made.

4. Interest in arrears

Accumulated simple interest as at March 31, 1981, on loans from Canada, is recorded on the balance sheet as long term since the Corporation does not foresee paying it, in whole or in part, during the next fiscal year. This interest does not include the interest since 1962 on a 2¾% loan in the amount of $7,576,000 issued with respect to the Jacques Cartier Bridge. The recording of this interest was discontinued when the tolls on this bridge were abolished.

5. Capital deficiency

When the Corporation took possession of its fixed assets on December 1, 1978, it also assumed the related debt obligations. The excess of such debts over the book value of the assets acquired at that date amounted to $72,448,371 and was recorded as a capital deficiency. The capital deficiency was reduced during the year by $62,410 ($125,724 in 1985) representing the parliamentary appropriation for financing the acquisition of fixed assets.

6. Related party transactions

Related party transactions not otherwise disclosed in these financial statements are as follows:

Operation services from the Montreal Port Corporation have been invoiced since January 1, 1985 on an interim basis; both parties being currently engaged in negotiating the value of those services. The amount thus invoiced for the year ended March 31, 1986 amounts to $1,594,800 ($1,720,610 for 1985) of which $132,900 was unpaid at March 31, 1986 ($132,900 as at March 31, 1985). The difference between the recorded amounts and those that shall be agreed upon will be accounted for when a final settlement will have been reached.

Administrative services from the parent company amounted to $580,506 ($549,850 in 1985). As at March 31, 1986 and 1985 an unpaid balance thereon of $45,820 is included in the amount due to the parent company. The Corporation estimated the cost of such services for the next year to be approximately $595,000.

7. Contingencies

In connection with its operations, the Corporation is the claimant or defendant in certain pending claims and lawsuits. It is the opinion of management that these actions will not result in any material liabilities to the Corporation.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 2

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD.

AUDITOR'S REPORT

THE HONOURABLE DON MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

I have examined the balance sheet of The Seaway International Bridge Corporation, Ltd. as at December 31, 1985 and the statements of operations and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canada Business Corporations Act, The St. Lawrence Seaway Authority Act and by-laws of the Corporation.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 21, 1986

BALANCE SHEET AS AT DECEMBER 31, 1985

ASSETS	1985	1984
	$	$
Current		
Cash and term deposits	141,537	295,878
Accounts receivable (Note 3)	290,139	6,601
	431,676	302,479
Fixed		
Cost	171,755	166,867
Less: accumulated depreciation	130,516	124,655
	41,239	42,212
	472,915	344,691

LIABILITIES	1985	1984
	$	$
Current		
Accounts payable and accrued liabilities	67,496	47,747
Due to The St. Lawrence Seaway Authority	106,794	34,321
Deferred revenue	19,030	17,811
	193,320	99,879
Long-term		
Accrued employee termination benefits	263,595	228,812
Debentures payable (Note 4)	8,000	8,000
	271,595	236,812
	464,915	336,691
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—An unlimited number of common shares		
Issued and fully paid—8 shares	8,000	8,000
	472,915	344,691

Approved by the Board:

W. A. O'NEIL
President and Director

JAMES EMERY
Vice-President and Director

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 2—*Continued*

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD.—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1985

	1985	1984
	$	$
Revenues		
Tolls	1,422,455	1,384,385
Rentals	65,314	63,762
Interest	26,432	39,798
Other	7,588	7,640
	1,521,789	1,495,585
Expenses		
Salaries and employee benefits	869,669	888,994
Maintenance, materials and services	179,997	146,801
Insurance	39,852	33,290
Employee termination benefits	34,783	42,616
Professional services	15,547	
Rental of toll collection machines	14,416	14,713
Electricity	12,250	12,482
Advertising	10,381	675
Grants in lieu of municipal taxes	9,000	11,300
Depreciation	7,671	16,933
Office supplies	7,139	8,923
Other	14,290	14,537
	1,214,995	1,191,264
Excess of revenues over expenses paid as bridge user charge (Note 5)	306,794	304,321

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1985

	1985	1984
	$	$
Source of funds		
Items in operations not affecting funds		
Employee termination benefits	34,783	42,616
Depreciation	7,671	16,933
	42,454	59,549
Application of funds		
Additions to fixed assets	6,698	2,852
Employee termination benefits		21,076
	6,698	23,928
Increase in working capital	35,756	35,621
Working capital, beginning of the year	202,600	166,979
Working capital, end of the year	238,356	202,600

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1985

1. Authority and activities

The Seaway International Bridge Corporation, Ltd. is a Crown corporation pursuant to the Financial Administration Act and is a wholly-owned subsidiary of The St. Lawrence Seaway Authority, a parent Crown corporation named in Schedule C Part I of the aforementioned Act. The Corporation was incorporated under the Canada Corporations Act in 1962, continued under the Canada Business Corporations Act, and is subject to The St. Lawrence Seaway Authority Act. Its purpose is to operate and manage the international toll bridge system between Cornwall, Ontario, and Rooseveltown, New York, on behalf of The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation.

2. Accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. A summary of significant accounting policies follows:

Bridge user charge

As described in Note 5 to the financial statements, the Corporation is required to distribute as a bridge user charge its excess of revenues over expenses. Payments are dependent on the Corporation's ability to generate excess revenues. Accordingly, the unpaid balances to The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation are not recorded as a liability in the books of the Corporation.

Fixed assets and depreciation

Fixed assets are recorded at cost. The cost of the North Channel Bridge is recorded in the books of The St. Lawrence Seaway Authority and is being amortized over a period of 50 years. Costs incurred by the Corporation relating to the Bridge which do not extend its estimated useful life are expensed.

Depreciation is based on the estimated useful life of the assets calculated on the straight-line method at the following annual rates:

Automotive	20%
Maintenance equipment	10% to 20%
Office and toll equipment	10%

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under the conditions of employment. The liability for these benefits is recorded in the accounts as the employees become entitled to the benefits.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Corporation. These contributions represent the total pension liability of the Corporation and are recognized in the accounts on a current basis.

Deferred revenue

Revenue from unredeemed toll tokens is deferred.

3. Accounts receivable

At December 31, 1985, accounts receivable includes $280,882 due from the Canada Deposit Insurance Corporation in respect of a term deposit and accumulated interest with the Northland Bank. Of this amount, $168,529 was received on January 6, 1986 and a cheque dated April 1, 1986 has been received for the balance.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Concluded*

APPENDIX 2—*Concluded*

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

4. Debentures payable

These debentures, due on December 31, 2012, are non-interest bearing and payable to the Saint Lawrence Seaway Development Corporation.

5. Bridge user charge

By agreement between The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation, the annual excess of revenues over expenses of the Corporation is paid as a bridge user charge; first, to the Authority to offset the amortization of the cost of the North Channel Bridge together with interest; then to the Saint Lawrence Seaway Development Corporation to offset the amortization of a $300,000 contribution towards the cost of the Racquette River Bridge; and the balance, if any, is then divided equally between both parties.

All bridge user charges since the commencement of the Corporation's operations have been paid to The St. Lawrence Seaway Authority. At December 31, the unpaid balance of the total cost of the North Channel Bridge was as follows:

	1985	1984
	$	$
Cost of construction	8,539,695	8,539,695
Interest	7,860,462	7,860,462
	16,400,157	16,400,157
Less: bridge user charges	4,798,112	4,491,318
Unpaid balance to The St. Lawrence Seaway Authority	11,602,045	11,908,839

6. Bridge use

With the approval of the Canadian Transport Commission, the Corporation has continued the practice of providing free usage of the bridge system to certain North American Indians. This represents a substantial portion of the Bridge traffic.

7. Related party transactions

In addition to the transactions disclosed elsewhere in these financial statements, The St. Lawrence Seaway Authority provides to the Corporation, without charge, certain engineering and administrative support services.

8. Commitments

The Corporation has contracted an engineering firm and approved a tender with a construction company to carry out the replacement of the roller bearings on the South Channel Bridge. The outstanding commitment is approximately $190,000.

The Corporation has also entered into a long-term lease for the rental of toll collection facilities and equipment. The minimum annual rental payments which will be paid over the remaining life of the lease are as follows:

	$
1986	14,235
1987	11,700
	25,935

9. Comparative figures

Certain comparative figures for 1984 have been reclassified to reflect the presentation adopted in 1985.

SUMMARY PAGE

SOCIETA A RESPONSIBILITA LIMITATA IMMOBILIARE SAN SEBASTIANO

MANDATE

Purchase and administration of the residence of Canada's Ambassador to the Holy See.

BACKGROUND

The sole asset of the company was the property known as 13/A Via di Porta San Sebastiano, Rome. This property has served as the official residence of successive Canadian ambassadors to the Holy See since the post was first opened in 1970. In 1982, the Department of External Affairs exercised an option to purchase the official residence by acquiring all the issued and outstanding shares of Immobiliare San Sebastiano S.R.L.

The dissolution of this Corporation was effected under Italian law as of December 24, 1985. Steps are now being taken to delete the name of this Corporation from Schedule C, Part I of the *Financial Administration Act*.

SOCIETA A RESPONSIBILITA LIMITATA IMMOBILIARE SAN SEBASTIANO

THE AUDITED FINANCIAL STATEMENTS FOR THE REPORT PERIOD
WERE NOT AVAILABLE AT DATE OF PRINTING

SUMMARY PAGE

STANDARDS COUNCIL OF CANADA

MANDATE

To foster and promote voluntary standardization in fields relating to construction, manufacture, production, quality, performance and safety of buildings, structures, manufactured articles and products, and other goods not expressly provided for by law, as a means of advancing the national economy, benefiting the public and protecting consumers.

BACKGROUND

The Council coordinates the activities of organizations involved in standardization in Canada, and represents Canada in international standardization organizations.

CORPORATION DATA

HEAD OFFICE	Suite 1203 350 Sparks Street Ottawa, Ontario K1R 7S8
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Harvie Andre, P.C., M.P.
DEPARTMENT	Consumer and Corporate Affairs
DATE AND MEANS OF INCORPORATION	*Standards Council of Canada Act* (R.S.C. 1970 C. C-41, 1st supplement). Proclaimed October 7, 1970.
CHIEF EXECUTIVE OFFICER	John R. Woods
CHAIRMAN	Georges Archer
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	3.3	5.3	4.0	3.6
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	2.2	4.4	3.4	3.0
Cash from Canada in the period				
— budgetary	4.5*	6.6	6.0	5.8
— non-budgetary	nil	nil	nil	nil

* Net of $0.9 million returned to Canada.

STANDARDS COUNCIL OF CANADA

AUDITOR'S REPORT

TO THE STANDARDS COUNCIL OF CANADA
AND
THE HONOURABLE MICHEL CÔTÉ, P.C., M.P.
MINISTER OF CONSUMER AND CORPORATE AFFAIRS

I have examined the balance sheet of the Standards Council of Canada as at March 31, 1986 and the statements of operations, surplus and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Council as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Council that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Standards Council of Canada Act and by-laws of the Council.

D. L. Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 21, 1986

BALANCE SHEET MARCH 31

ASSETS	1986	1985
	$	$
Current		
Cash and short-term deposits	2,768,726	4,627,872
Accrued interest	24,231	225,468
Accounts receivable		
Government of Canada	97,227	124,347
Other	132,742	95,458
Prepaid expenses	128,100	47,578
	3,151,026	5,120,723
Fixed		
Office furniture and equipment (Note 3)	184,104	182,482
	3,335,130	5,303,205

LIABILITIES	1986	1985
	$	$
Current		
Accounts payable and accrued liabilities	576,410	531,471
Customer and other deposits	65,425	105,990
Payable to Government of Canada (Note 4)	199,000	
	840,835	637,461
Long-term		
Provision for employee termination benefits	253,371	227,214
	1,094,206	864,675
EQUITY OF CANADA		
Surplus	2,240,924	4,438,530
	3,335,130	5,303,205

Approved by the Council:

GEORGES ARCHER
President

JOHN R. WOODS
Executive Director

STANDARDS COUNCIL OF CANADA—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31

	1986	1985
	$	$
Expenses		
Salaries, wages and employee benefits	2,886,456	2,627,357
Travel	1,072,963	946,413
Financial assistance to standards-writing organizations	694,166	873,500
Publications and printing	588,898	526,302
Membership in international organizations	506,650	438,797
Direct cost of standards purchases	422,974	380,575
Office accommodation	355,401	341,571
Professional and special services	293,453	237,238
Telephone and postage	222,510	197,715
International secretariat costs	178,282	177,260
Public relations	149,248	297,420
Depreciation	73,277	49,873
Rental of office equipment	69,110	65,039
Meetings	48,227	32,957
Office supplies	35,668	43,459
General Meeting of the International Electrotechnical Commission (Note 6)	332,754	19,359
Other	109,435	72,980
	8,039,472	7,327,815
Less: GATT Enquiry Point operating costs recovered from Department of External Affairs	327,464	291,871
costs of development assistance programs recovered from Canadian International Development Agency (CIDA)	21,181	45,795
	7,690,827	6,990,149
Revenues		
Sale of standards	580,710	565,543
Interest income	452,980	755,483
Contributions for General Meeting of the International Electrotechnical Commission (Note 6)	114,940	
Other	19,591	12,015
	1,168,221	1,333,041
Cost of operations	6,522,606	5,657,108
Parliamentary appropriation		
Consumer and Corporate Affairs Vote 20	5,424,000	6,612,000
Less: amounts paid or payable to Government of Canada (Note 4)	1,099,000	
	4,325,000	6,612,000
(Deficiency) excess of parliamentary appropriation over cost of operations for the year	(2,197,606)	954,892

STATEMENT OF SURPLUS FOR THE YEAR ENDED MARCH 31

	1986	1985
	$	$
Appropriated (Note 5)		
Balance at beginning of the year	1,045,350	1,064,709
Less: released during the year, net	(218,314)	(19,359)
Balance at end of the year	827,036	1,045,350
Unappropriated		
Balance at beginning of the year	3,393,180	2,418,929
(Deficiency) excess of parliamentary appropriation over cost of operations for the year	(2,197,606)	954,892
Released during the year, net	218,314	19,359
Balance at end of the year	1,413,888	3,393,180
	2,240,924	4,438,530

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31

	1986	1985
	$	$
Operating activities		
(Deficiency) excess of parliamentary appropriation over cost of operations for the year	(2,197,606)	954,892
Items not requiring an outlay of cash		
Depreciation	73,277	49,873
Employee termination benefits	67,982	67,376
	(2,056,347)	1,072,141
Payment of employee termination benefits	(41,825)	(48,998)
Changes in current liabilities and current assets other than cash and short-term deposits	313,925	93,336
Cash and short-term deposits (used in) provided by operating activities	(1,784,247)	1,116,479
Investing activities		
Purchase of office furniture and equipment	(74,899)	(105,670)
(Decrease) increase during the year	(1,859,146)	1,010,809
Cash and short-term deposits at beginning of the year	4,627,872	3,617,063
Cash and short-term deposits at end of the year	2,768,726	4,627,872

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1986

1. Authority and objectives

The Standards Council of Canada was created by Parliament as a corporation under the Standards Council of Canada Act in 1970 to be the national co-ordinating body for voluntary standardization. The Council is a Crown corporation named in Part I of Schedule C to the Financial Administration Act. The Council carries out its task through the National Standards System, a federation of accredited organizations concerned with standards-writing, certification and testing.

The objectives of the Council are to foster and promote voluntary standardization in fields relating to the construction, manufacture, production, quality, performance and safety of buildings, structures, manufactured articles and products and other goods and to further international co-operation in the field of standards.

2. Significant accounting policies

(a) Office furniture and equipment

Office furniture and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of the assets as follows:

Furniture	5 years
Equipment	4 years

(b) Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits has been recorded in the accounts as the benefits accrue to the employees.

(c) Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Council. Contributions with respect to current service are expensed in the current period.

STANDARDS COUNCIL OF CANADA—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

3. Office furniture and equipment

	March 31, 1986			March 31, 1985
	Cost	Accumulated depreciation	Net book value	Net book value
	$	$	$	$
Office furniture	101,346	60,621	40,725	52,555
Office equipment	275,110	131,731	143,379	129,927
	376,456	192,352	184,104	182,482

4. Amounts paid or payable to Government of Canada

(a) In response to the Budget Papers tabled in the House of Commons by the Minister of Finance on May 23, 1985, the Council returned $900,000 to the Government of Canada.

(b) In response to the freeze on discretionary spending announced by the President of the Treasury Board on February 6, 1986, the Council will remit $199,000 to the Government of Canada.

5. Appropriated surplus

	March 31 1986	March 31 1985
	$	$
Reserve toward cost of future in-house electronic data processing facility	500,000	500,000
Reserve toward cost of hosting the Pacific Area Standards Congress XII in 1988	100,000	
Reserve for contingencies	227,036	46,874
Reserve toward cost of hosting the General Meeting of the International Electrotechnical Commission in May 1985		498,476
	827,036	1,045,350

6. General Meeting of the International Electrotechnical Commission

	$	$
Reserve recorded in appropriated surplus as at March 31, 1985		498,476
Net expenses		
Expenses incurred	332,754	
Less: contributions received	114,940	217,814
Excess of reserve over net expenses		280,662

7. Comparative figures

Certain figures for 1985 presented for comparative purposes have been restated to conform to the 1986 presentation.

SUMMARY PAGE

TELEGLOBE CANADA

MANDATE

To establish, maintain and operate, in Canada and elsewhere, international telecommunications services for the conduct of public communications.

BACKGROUND

Originally named the Canadian Overseas Telecommunications Corporation, its name was changed in 1975 by the *Teleglobe Canada Act*. The Corporation has operated and added substantially to overseas cable and other communications systems for Canada. It is profitable and its privatization is being actively considered.

CORPORATION DATA

HEAD OFFICE	680 Sherbrooke Street, West Montreal, Quebec H3A 2S4
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Barbara McDougall, P.C., M.P. Minister of State (Privatization)
DATE AND MEANS OF INCORPORATION	By the *Canadian Overseas Telecommunications Act* 1949 (R.S.C. 1970, C. C-11)
CHIEF EXECUTIVE OFFICER AND CHAIRMAN	Jean-Claude Delorme
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Late in 1984, the financial year-end, which had been March 31, was changed to December 31.

	1985	9 months to Dec. 31, 1984	1983-84	1982-83
At the end of the period				
Total Assets	524.9	574.6	520.0	448.7
Obligations to the private sector	66.5	68.3	64.4	43.9
Obligations to Canada	3.9	5.2	5.9	9.2
Equity of Canada	307.4*	362.2	325.7	284.5
Cash from (to) Canada in the period, net				
— budgetary	(108.1)*	nil	nil	(9.4)
— non-budgetary	(1.3)	(0.6)	(3.3)	(3.2)

* $108.1 million was remitted to Canada as dividends.

TELEGLOBE CANADA

AUDITOR'S REPORT

THE HONOURABLE SINCLAIR MCKNIGHT STEVENS, P.C., M.P.
MINISTER OF REGIONAL INDUSTRIAL EXPANSION

I have examined the balance sheet of Teleglobe Canada as at December 31, 1985 and the statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Teleglobe Canada Act and regulations and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
February 17, 1986

BALANCE SHEET AS AT DECEMBER 31
(in thousands of dollars)

ASSETS	1985	1984
Current		
Cash and temporary investments, at cost (market value: December 31, 1985—$109,333; December 31, 1984—$134,101)	106,692	129,665
Accounts receivable	93,884	99,610
Prepaid expenses	2,056	2,224
	202,632	231,499
Fixed assets (Note 4)	308,638	331,530
Other assets		
Long-term receivables	8,937	9,159
Deferred charges (Note 5)	4,707	2,380
	13,644	11,539
	524,914	574,568

LIABILITIES	1985	1984
Current		
Accounts payable	87,606	82,501
Income tax payable	8,454	7,053
Estimated amount due to Commonwealth Telecommunications Organisation partners (Note 11b)	1,915	1,915
Portion of long-term debt due within one year (Note 6)	9,955	9,210
	107,930	100,679
Long-term debt (Note 6)	60,491	64,351
Deferred credits		
Income tax (Note 9)	46,792	44,871
Other	2,348	2,485
	49,140	47,356
EQUITY OF CANADA		
Retained earnings	307,353	362,182
	524,914	574,568

Approved by the Board:

RONALD MONTCALM
Director

MICHAEL E. PHELPS
Director

JEAN-CLAUDE DELORME
President and Chief Executive Officer

TELEGLOBE CANADA—*Continued*

INCOME AND RETAINED EARNINGS
(in thousands of dollars)

	Year ended December 31, 1985	9 months ended December 31, 1984
Revenues		
Public services	649,127	427,466
Other services	12,336	7,893
Share of Intelsat and Inmarsat revenues	17,167	13,694
	678,630	449,053
Carriers' share of revenues and other realization costs	438,174	284,241
Operating revenues	240,456	164,812
Operating expenses		
Salaries and benefits	55,273	41,211
Maintenance and rental	41,133	31,094
Depreciation	33,400	27,606
Other expenses	19,363	13,536
	149,169	113,447
Operating income	91,287	51,365
Other income—Net (Note 7)	13,717	21,058
	105,004	72,423
Financial charges (Note 8)	5,209	4,479
Income before income tax	99,795	67,944
Income tax (Note 9)	46,566	31,425
Net income	53,229	36,519
Retained earnings at beginning	362,182	325,663
Amount remitted to the Government of Canada	(108,058)	
Retained earnings at end	307,353	362,182

CHANGES IN FINANCIAL POSITION
(in thousands of dollars)

	Year ended December 31, 1985	9 months ended December 31, 1984
Source of funds		
Operations		
Net income	53,229	36,519
Items not affecting working capital		
Depreciation	33,400	27,606
Amortization of financial charges		210
Deferred income tax	1,921	3,399
Allowance for funds used during construction	(3,817)	(5,001)
Gain on disposal of assets	(248)	
	84,485	62,733
Proceeds from disposal of fixed assets	16,173	5,503
Long-term debt	5,893	6,503
Reduction of long-term receivables	222	241
	106,773	74,980
Application of funds		
Acquisition of fixed assets	22,236	27,398
Reduction of long-term debt	9,753	8,554
Deferred charges	2,707	1,466
Decrease in other deferred credits	137	108
Amount remitted to the Government of Canada	108,058	
	142,891	37,526
Increase (Decrease) in working capital	(36,118)	37,454
Working capital, beginning	130,820	93,366
Working capital, end	94,702	130,820

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985

1. Authority and activities

Teleglobe Canada, created by the Teleglobe Canada Act, is mandated to establish, maintain and operate Canada's international telecommunication services and to coordinate these services with those of other countries.

2. Significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The Corporation follows the significant accounting policies summarized below:

(a) Fixed assets

Fixed assets are stated at acquisition cost, which includes salaries, benefits and certain overhead costs related to construction activities. In addition, for major capital projects, an allowance for funds used during construction is included.

Jointly-owned fixed assets are accounted for proportionally to the Corporation's share.

From time to time, the Corporation acquires indefeasible rights of user for international telecommunications circuits that extend over specific time periods. Furthermore, the Corporation may grant such rights on circuits owned by it, or grant such rights that have been previously acquired. The amounts paid or received according to the terms of these transactions are recorded as fixed assets and depreciated over the duration of each agreement.

The Corporation has been designated by the Government of Canada to be the Canadian signatory to the International Telecommunications Satellite Organization (Intelsat) and the International Maritime Satellite Organization (Inmarsat). Periodically, each signatory's ownership share is adjusted to conform to its percentage of total use of the system or any other percentage elected within the terms of the agreements. The Corporation's ownership share is reported in fixed assets and depreciated in accordance with the fixed assets depreciation policy.

(b) Allowance for funds used during construction

The rate applied in determining the allowance for funds used during major construction projects is based principally on the interest rate established by the Minister of Finance for medium-term Government loans to Crown corporations. This allowance is accounted for as income during the construction period.

(c) Depreciation of fixed assets

Fixed assets are depreciated over the estimated service lives of the assets, using the straight-line method.

When depreciable assets are taken out of service, their net book value, less salvage, is charged to depreciation. When other assets are taken out of service, any resulting gain or loss is reflected in income.

In the event of a satellite launch failure or breakdown of an orbiting satellite, the costs are depreciated over the life of the group of satellites.

TELEGLOBE CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Continued*

(d) Operating revenues

—Public services

Revenues from international public services (telephone, telex and telegraph) rendered through the Corporation's telecommunications network represent the amounts billed to Canadian subscribers by domestic carriers and amounts received or due from foreign administrations for the routing of overseas traffic. Estimates are included to provide for that portion of revenues which domestic carriers and foreign administrations have not yet reported to the Corporation at end of the year. Public service revenues are also derived from leasing circuits to foreign carriers for routing their traffic through Canada.

—Other services

Revenues from other services are derived primarily from leasing circuits to private users.

—Share of Intelsat and Inmarsat revenues

The Corporation's share of Intelsat and Inmarsat revenues represents its share of revenues from the international telecommunications satellite system as well as from the international maritime satellite system.

(e) Carriers' share of revenues and other realization costs

—Carriers' share of revenues

This represents the amounts owing to domestic carriers and foreign administrations for their part in routing telecommunications traffic.

—Other realization costs

These costs include:

- the Corporation's voluntary contribution to developing Commonwealth Telecommunications Organisation partners in accordance with the 1983 financial agreement;
- the Corporation's share of the operating costs of the international telecommunications satellite system and the international maritime satellite system, excluding depreciation, which amounted to $5.2 million for the year ended December 31, 1985 ($3.3 million for the 9-month period ended December 31, 1984).

(f) Foreign currency translation

Assets, liabilities, revenues and expenses arising from foreign currency transactions are translated into Canadian dollars at the exchange rate at the time of the transaction, except when the transaction is hedged.

When a purchase or sale of goods or services in a foreign currency is hedged before the transaction, the Canadian dollar price of such goods or services is established by the terms of the hedge. If the hedge is incomplete as a result of having entered into a contract involving a foreign currency other than that of the transaction and the Canadian dollar, the price of the goods or services is first established by the terms of the foreign exchange contract and then translated into Canadian dollars by using the average exchange rate of that intermediate currency at the time the transaction occurred.

When a purchase or sale of goods or services in a foreign currency is hedged after the transaction, completely or in part, the amount in Canadian dollars of the payable or receivable is restated according to the terms of the foreign exchange contract constituting the hedge. The difference thus recognized is reflected in income as a gain or loss on foreign exchange.

As at the end of a financial year, monetary items denominated in foreign currencies are adjusted to reflect the exchange rates in effect as at the date of the balance sheet. For items hedged by way of forward exchange contracts, the difference thus recognized is deferred. The gain or loss recognized on other items is reflected in current earnings as a gain or loss on foreign exchange, except for that portion which relates to monetary items with a fixed or ascertainable life extending beyond one year from the end of the financial year. In these cases, the gain or loss is deferred and amortized over the remaining life of the related monetary item using the straight-line method. The unamortized balance of the deferred gain or loss on foreign exchange is recorded in the balance sheet as a deferred credit or as a deferred charge. The effect of the forward exchange contracts on the long-term debt is recorded as an element of long-term debt.

Commitments in foreign currencies are translated into Canadian dollars at the exchange rates in effect as at the date of the balance sheet, except when they are hedged in which case the terms of the foreign exchange contracts are used.

(g) Pension plan

All employees of the Corporation are covered by the pension plan administered by the Government of Canada. These employees and the Corporation are required to contribute to the cost of the plan for current service. These contributions represent the total liability of the Corporation in this matter and are accounted for on a current basis.

(h) Retirement benefits

Retiring employees are paid a benefit equivalent to one half of accumulated unused sick leave days up to March 31, 1981, with an additional credit of five days for every year of service after that date, calculated at the salary level in effect at the time of retirement. The cost of the benefit is expensed in the year in which it is earned by employees.

3. Change in fiscal year

In 1984, the Board of Directors, with the Governor General in Council approval, authorized the Corporation to change its fiscal year end from March 31 to December 31. Consequently, comparative figures are for the 9-month period ended December 31, 1984.

4. Fixed assets

(a) The main classes of fixed assets are as follows:

	1985			1984
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Land	4,841		4,841	4,965
Buildings and leasehold improvements	48,169	16,505	31,664	33,557
Furnishings	9,770	5,081	4,689	5,352
Cable systems	134,076	63,798	70,278	76,213
Terminal, transmission and switching equipment	218,533	109,295	109,238	98,266
International satellite systems space segment (Intelsat-Inmarsat)	49,248	24,571	24,677	14,165
Other plant and equipment	28,096	17,207	10,889	11,238
Construction in progress	52,362		52,362	87,774
	545,095	236,457	308,638	331,530

TELEGLOBE CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Continued*

(b) Fixed assets owned outright by the Corporation or owned jointly with other telecommunication entities are as follows:

	1985			1984
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Owned outright	327,418	142,283	185,135	197,088
Owned jointly (Corporation's share)	217,677	94,174	123,503	134,442
	545,095	236,457	308,638	331,530

(c) For depreciation purposes, the estimated service lives of the main classes of fixed assets are as follows:

	Number of years
Buildings and related equipment	15 – 40
Leasehold improvements	over the term of the lease
Furnishings	8 – 10
Cable systems	over the term of the agreement
Terminal, transmission and switching equipment	1 – 15
International satellite systems space segment (Intelsat-Inmarsat)	6 – 12
Other plant and equipment	1 – 25

(d) As at December 31, 1985, construction in progress included an amount of $23,595,000 ($40,280,000 as at December 31, 1984) for the international satellite systems space segment (Intelsat-Inmarsat).

(e) As at December 31, 1985, the Corporation's ownership share in Intelsat was 2.317395 percent (2.980056 percent as at December 31, 1984) and its ownership share in Inmarsat was 3.83692 percent (2.56864 percent as at December 31, 1984).

5. Deferred charges

Unamortized deferred charges include:

	1985	1984
	(in thousands of dollars)	
Unrealized losses on foreign exchange	3,837	2,380
Interconnection costs relating to the Toronto International Center	870	
	4,707	2,380

6. Long-term debt

As at December 31, 1985, the Corporation's long-term debt comprises loans from the Government of Canada bearing interest at rates ranging from 3½ percent to 5¾ percent, and amounts owing to the prime contractors of the ANZCAN cable system bearing interest at the rate of 8¾ percent payable in pounds sterling and in United States dollars.

The Corporation has entered into agreements with the two prime contractors of the ANZCAN project whereby 15 percent of contract costs have been paid, and the balance is payable in 17 semi-annual installments which started with the completion of construction in 1985. According to the terms of one of the agreements, payments by the Corporation to the prime contractor are secured by means of bills of exchange drawn by the latter and accepted by the Corporation.

As described in Note 10(b), the Corporation has entered into forward exchange contracts to protect itself against fluctuations of the pound sterling. The effect of this protection has been recorded as an element of long-term debt.

As at December 31, 1985, the details of the long-term debt were as follows:

Maturities	Loans from Government of Canada	Amounts owing to the prime contractors of the ANZCAN project	Effect of forward exchange contracts	Total
	(in thousands of dollars)			
1986	1,276	7,699	980	9,955
1987	759	7,699	1,028	9,486
1988	325	7,699	1,093	9,117
1989	234	7,699	1,166	9,099
1990	135	7,699	1,240	9,074
1991-98	1,176	19,119	3,420	23,715
	3,905	57,614	8,927	70,446
Portion due within one year	1,276	7,699	980	9,955
	2,629	49,915	7,947	60,491

7. Other income—Net

	Year ended December 31, 1985	9 months ended December 31, 1984
	(in thousands of dollars)	
Interest from temporary investments	12,315	10,345
Allowance for funds used during construction	3,817	5,001
Other interest	1,975	1,781
Gain (loss) on foreign exchange	(8,183)	3,349
Gain on disposal of temporary investments	2,297	185
Gain on disposal of assets	248	
Other	1,248	397
	13,717	21,058

8. Financial charges

	Year ended December 31, 1985	9 months ended December 31, 1984
	(in thousands of dollars)	
Interest on long-term debt	4,846	3,444
Other interest	363	825
Amortization of financial commitment charges related to the ANZCAN project		210
	5,209	4,479

TELEGLOBE CANADA—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

9. Income tax

The Corporation is subject to federal income tax.

Deferred income tax results principally from timing differences between depreciation of fixed assets for accounting and income tax purposes.

Income tax expense comprises:

	Year ended December 31, 1985	9 months ended December 31, 1984
	(in thousands of dollars)	
Current	44,645	28,026
Deferred	1,921	3,399
	46,566	31,425

10. Commitments

(a) Construction in progress

As at December 31, 1985, the estimated cost of completing construction projects, planned and in progress, amounted to approximately $144,600,000, of which $43,600,000 relates to the year ending December 31, 1986. Contractual commitments outstanding as at December 31, 1985 amounted to approximately $13,973,000.

(b) Forward exchange contracts

As a result of the Corporation's participation in the ANZCAN project, the Corporation must make payments to a prime contractor, in pounds sterling.

To protect itself against this foreign currency exposure, the Corporation has entered into forward exchange contracts with two Canadian chartered banks to buy a total of 44,678,000 pounds sterling. The balance of amounts involved under the contracts, estimated to cover construction costs and interest charges, is hedged in United States dollars as follows:

Maturities	Pounds sterling	United States dollars
	(in thousands)	
1986	5,769	9,421
1987	5,459	8,964
1988	5,151	8,522
1989	4,842	8,079
1990	4,533	7,627
1991-93	9,981	17,030
	35,735	59,643

(c) Long-term leases

The Corporation is a party to long-term leases covering properties and facilities. The aggregate minimum annual rentals which will be paid in subsequent years are:

	(in thousands of dollars)
1986	14,785
1987	14,093
1988	13,406
1989	8,288
1990	5,962
1991-95	7,035

Rental expenses for property and facilities which were charged to the year ended December 31, 1985 amounted to $16,351,000 ($11,026,000 for the period of 9 months ended December 31, 1984).

(d) Agreement with the Department of Transport

Under the terms of an agreement between the Corporation and the Department of Transport, the Corporation charters the cableship/icebreaker C.C.G.S. John Cabot on a cost reimbursement basis for periods of actual usage. This agreement is cancellable on 12 months notice. The Corporation incurred a cost under this agreement of $5,408,000 during the year ended December 31, 1985 ($6,969,000 for the 9 months ended December 31, 1984).

(e) Intelsat and Inmarsat commitments

As at December 31, 1985, the Corporation's share of Intelsat's and Inmarsat's outstanding commitments was respectively $25,097,000 and $19,679,000 based on their financial statements as at December 31, 1985.

11. Contingencies

(a) Retirement compensation benefits

Prior to November 1, 1974, the Corporation provided a post-retirement life insurance plan for its retiring employees. On that date, the plan was replaced by a retirement compensation benefit for all employees on staff at the time. The cost of this benefit is recognized in the accounts in the year in which payments are made. As at December 31, 1985, the maximum liability of the Corporation under this plan, should all entitled employees retire while in the service of the Corporation, amounted to $1,597,000 ($1,738,000 as at December 31, 1984).

(b) Estimated amount due to CTO partners

Once the governments of all 26 member countries completed the signing formalities, the Commonwealth Telecommunications Organisation (CTO) Financial Agreement of 1973 was legally terminated, retroactive to March 31, 1983. However, partnership accounts have only been finalized up to March 31, 1981. For those years in which accounts have not been finalized, the Corporation has provided in its liabilities for the excess of provisional settlements received over the estimated recoverable amounts. However, the results of the final settlements for those years could differ from the estimated amounts.

12. Announced privatization of the Corporation

In a statement dated October 30, 1984, the Minister of Regional Industrial Expansion announced the intention of the Government of Canada to sell the Corporation to the private sector. Although the privatization process is underway, the eventual selling price was not determinable at the time of preparation of these financial statements.

SUMMARY PAGE

URANIUM CANADA, LTD.

MANDATE

To negotiate, execute and perform agreements for the purchase, stockpiling and sale of uranium concentrates on behalf of the Crown and to do anything necessary or incidental thereto.

BACKGROUND

The Corporation accumulated 24 million pounds of uranium oxide and made sales from this to utilities abroad. The last of the stockpile (14.5 million pounds) was transferred to Eldorado Nuclear Limited in 1981.

Uranium Canada, Ltd. was dissolved on December 17, 1985 pursuant to Bill C-60 which was given Royal Assent on October 29, 1985.

URANIUM CANADA, LIMITED

THE CORPORATION HAD NEGLIGIBLE ASSETS AND WAS INACTIVE DURING THE REPORT PERIOD

SUMMARY PAGE

VANCOUVER PORT CORPORATION

MANDATE

Administration, management and control of the Vancouver Harbour and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Vancouver Port Corporation was established on July 1, 1983 pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. Vancouver is the largest port in Canada. In 1985, 56.1 million tonnes of cargo passed through the port, a slight volume decrease from the record-breaking previous year. Coal (20 million tonnes) and grain (9.3 million tonnes) are the most important commodities; however, sulphur and potash are growing in importance.

CORPORATION DATA

HEAD OFFICE	1900-200 Granville Square 200 Granville Street Vancouver, British Columbia V6C 2P9
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	July 1, 1983; letters patent of incorporation issued by the Minister of Transport pursuant to subsection 6.2(1) of the *Canada Ports Corporation Act*.
CHIEF EXECUTIVE OFFICER	Francis J. MacNaughton
CHAIRMAN	Hector D. Perry
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1985	**1984**	**Six months to Dec. 31, 1983**
At the end of the period			
Total Assets	242.7	221.0	206.3
Obligations to the private sector	nil	nil	nil
Obligations to Canada	81.0	81.2	81.5
Equity of Canada	119.0	98.6	81.8
Cash from Canada in the period			
— budgetary	nil	nil	nil
— non-budgetary	nil	nil	nil

VANCOUVER PORT CORPORATION

AUDITOR'S REPORT

THE HONOURABLE DONALD MAZANKOWSKI, P.C., M.P.
MINISTER OF TRANSPORT

I have examined the balance sheet of Vancouver Port Corporation as at December 31, 1985 and the statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canada Ports Corporation Act and by-laws of the Corporation.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 25, 1986

BALANCE SHEET AS AT DECEMBER 31, 1985
(in thousands of dollars)

ASSETS	1985	1984	LIABILITIES	1985	1984
Current			Current		
Cash	1,087	827	Accounts payable and accrued liabilities	7,892	6,186
Investments (Note 3)	36,054	28,692	Grants in lieu of municipal taxes	3,612	4,710
Accounts receivable	9,488	9,264	Deferred revenues	2,834	2,129
Materials and supplies	778	718		14,338	13,025
	47,407	39,501	Long-term		
Long-term			Accrued employee benefits	1,203	952
Investments (Note 3)	9,472	9,410	Loans from Canada (Note 6)	108,204	108,377
Receivables (Note 4)	8,223	4,596		109,407	109,329
	17,695	14,006		123,745	122,354
Fixed (Note 5)	177,605	167,446			
			EQUITY OF CANADA		
			Contributed capital (Note 1)	7,733	7,733
			Retained earnings	111,229	90,866
				118,962	98,599
	242,707	220,953		242,707	220,953

Approved by the Board:

HECTOR PERRY
Chairman

ROD SNOW
Director

VANCOUVER PORT CORPORATION—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Revenue from operations	104,349	94,746
Operating and administrative expenses	79,562	73,294
Grants in lieu of municipal taxes	4,265	4,391
Depreciation	4,704	4,526
	88,531	82,211
Income from operations	15,818	12,535
Investment income	4,895	4,600
Interest expense on loans from Canada	(350)	(361)
Net income	20,363	16,774
Retained earnings at beginning of the year	90,866	74,092
Retained earnings at end of the year	111,229	90,866

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1985
(in thousands of dollars)

	1985	1984
Operating activities		
Net income	20,363	16,774
Items not affecting cash		
Depreciation	4,704	4,526
Other	178	115
Increase (decrease) in operating components of working capital	1,029	(1,883)
Cash provided by operating activities	26,274	19,532
Financing activities		
Loans from Canada currently payable	173	161
Cash required for financing activities	173	161
Investing activities		
Additions to fixed assets	18,815	20,344
Reduction to fixed assets on cost recovery (Note 4)	(3,947)	
Increase in long-term receivables (Note 4)	3,947	
Other	(336)	(349)
Cash required for investing activities	18,479	19,995
Increase (decrease) in cash and short-term investments	7,622	(624)
Cash and short-term investments at beginning of the year	29,519	30,143
Cash and short-term investments at end of the year	37,141	29,519

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1985

1. Incorporation and objectives

The Vancouver Port Corporation (the Corporation) was established effective July 1, 1983 as a local port corporation pursuant to the Canada Ports Corporation Act and is named as a Crown corporation in Schedule C, Part II of the Financial Administration Act. The Corporation is exempt from income taxes.

The objectives of the Corporation are to manage and operate the harbour of Vancouver as an effective instrument in support of the national ports policy as set out in the Canada Ports Corporation Act.

In accordance with the Canada Ports Corporation Act, all rights, obligations and liabilities of the Canada Ports Corporation (C.P.C.), formerly National Harbours Board, relating to the Port of Vancouver were transferred to the Corporation by C.P.C. effective July 1, 1983. The net assets transferred were recorded by the Corporation as contributed capital of $7,733,000 and retained earnings of $67,436,000 at the book values established in the accounts of C.P.C.

2. Significant accounting policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles considered to be appropriate in the circumstances and consistently applied. A summary of the significant accounting policies of the Corporation is as follows:

Fixed assets and depreciation

Fixed assets are recorded at cost except for those transferred to the National Harbours Board, now C.P.C., from Canada which are recorded by the Vancouver Port Corporation at appraised or fair market values established at the time of that transfer. Depreciation of fixed assets is calculated on the straight-line basis, commencing with the year the asset becomes operational, at rates based on the estimated useful lives of the assets as follows:

	Years
Dredging	40
Berthing structures, buildings, roads and surfaces	10 to 40
Utilities	10 to 33
Machinery and equipment	1 to 20
Office furniture and equipment	5

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Corporation. These contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis.

Insurance

The Corporation assumes substantially all risks against fire and property damage, as well as for worker's compensation claims. Any costs arising from these risks are recorded in the accounts in the period incurred.

Grants in lieu of municipal taxes

Grants in lieu of municipal taxes are based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. After the amounts have been audited by the Municipal Grants Division of Public Works Canada, any adjustments upon finalization are reflected in the accounts in the period of settlement.

Employee benefits

The Corporation accrues in its accounts the estimated liabilities for severance pay and annual leave. These benefits are provided for under collective agreements and corporate policy.

3. Investments

Funds are invested in Government of Canada treasury bills (current) and bonds (long-term) which are shown at amortized cost, with premiums or discounts amortized over the periods to maturity. At December 31, 1985, the market value of treasury bills approximated carrying value and the market value of bonds was $10,526,300.

VANCOUVER PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985—*Concluded*

4. Long-term receivables

Long-term receivables result from:

(a) 20 year agreements covering the sale of grain elevator facilities which become due over periods of 9 to 11 years at interest rates varying from 5.75% to 6.625%.

(b) A non-interest bearing agreement signed April 30, 1985 for reimbursement of $3,947,300 in respect of Roberts Bank causeway fill placement costs capitalized in 1983. Reimbursement to the Corporation is to be made when rail trackage is installed on the causeway or April 1994, whichever is earlier.

5. Fixed assets

	1985			1984
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Land	75,135		75,135	79,083
Dredging	304	154	150	100
Berthing structures	48,400	20,779	27,621	21,813
Buildings	19,551	7,701	11,850	12,128
Utilities	10,415	4,254	6,161	5,938
Roads and surfaces	24,482	12,101	12,381	13,798
Machinery and equipment	21,937	7,217	14,720	15,577
Office furniture and equipment	582	511	71	106
Projects under construction	29,516		29,516	18,903
	230,322	52,717	177,605	167,446

6. Loans from Canada

	1985	1984
	(in thousands of dollars)	
Interest bearing loan at 7.5% repayable in blended annual instalments until December 31, 2000	4,506	4,667
Less: current portion	173	161
	4,333	4,506
Non-interest bearing loan with an indefinite due date	76,494	76,494
Accrued interest not due and payable	27,377	27,377
	108,204	108,377

The non-interest bearing loan and accrued interest not due and payable were transferred to the Corporation by C.P.C. effective July 1, 1983. This loan replaced an interest bearing loan of the same amount on which interest of $27,377,000 had accrued to December 31, 1980.

Principal repayment requirements over the next five years amount to $173,000 in 1986, $185,000 in 1987, $199,000 in 1988, $214,000 in 1989, and $230,000 in 1990.

7. Commitments and contingencies

At December 31, 1985 the estimated cost of completing all approved capital projects was $29 million of which the Corporation had contractual obligations at that date for $5.9 million.

Claims aggregating approximately $2 million in respect of lawsuits, guarantees, employee agreements, damage allegedly suffered on the Corporation's property and sundry other matters in dispute have been made against the Corporation. In the opinion of management, the final outcome of such claims will not result in any material loss.

The Corporation has long-term lease obligations for office accommodation aggregating $1,171,000 for the period from January 1, 1986 to October 31, 1988 at a base annual rent of $448,000. The obligations also call for payment of a pro-rata share of operating costs estimated at $67,000 for 1985.

8. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations.

In addition to the loans from Canada disclosed in Note 6 and an additional payment of $8 million to Canada Harbour Place Corporation for the construction of a cruise ship facility at Canada Place in Vancouver, B.C., the Corporation paid $1.9 million to Canada Ports Corporation as its share of that Corporation's head office expense.

9. Subsequent event

The Government of Canada has requested cash contributions from various Crown corporations, including the Ports Canada system made up of the Canada Ports Corporation, Vancouver Port Corporation, and other local port corporations. This cash recovery program is for the years 1985-86 and 1986-87. There was a request for a contribution of $83 million from the Ports Canada system to be payable to the Government of Canada by March 31, 1986.

The Board of Directors of Vancouver Port Corporation has resolved at its meeting of February 25, 1986 to remit to the Government of Canada by March 31, 1986 the sum of $14,059,000, representing this Corporation's share of the requested contribution of $83 million for 1985-86.

There is a further request for a contribution of $50 million from the Ports Canada system to be payable by June 30, 1986. The Corporation's share of this amount has not been determined.

SUMMARY PAGE

VIA RAIL CANADA INC.

MANDATE

To manage rail passenger services in Canada in such a manner as to improve their efficiency, effectiveness and economy.

BACKGROUND

In accordance with contracts with the Minister of Transport, VIA Rail operates inter-city, transcontinental, regional and remote passenger train services over CN and CP railway tracks.

CORPORATION DATA

HEAD OFFICE	2 Place Ville-Marie, Montreal, Quebec H3B 2G6
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
DATE AND MEANS OF INCORPORATION	Incorporated under the *Canada Business Corporations Act* on January 12, 1977. The Minister of Transport acquired all common shares on April 1, 1978.
CHAIRMAN AND ACTING CHIEF EXECUTIVE OFFICER	Lawrence Hanigan
AUDITOR	Raymond, Chabot, Martin, Paré and Associés

FINANCIAL SUMMARY (**$** million) The financial year is the calendar year.

	1985	**1984** (restated)	**1983**	**1982**
At the end of the year				
Total Assets	898.6	749.8	652.4	538.4
Cash and Short Term Securities	3.9	27.4	157.2	131.3
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	11.0
Equity of Canada	711.8	603.1	531.5	383.5
Cash from Canada in the year				
— budgetary	631.4	473.5	597.6	534.8
— non-budgetary	nil	nil	nil	nil

VIA RAIL CANADA INC.

RESPONSIBILITY FOR PREPARATION AND INTEGRITY OF FINANCIAL STATEMENTS

The management of VIA is responsible for the preparation and integrity of the financial statements contained in the Annual Report. These statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgement. Management considers that the statements present fairly the financial position of VIA and the results of its operations.

To fulfill its responsibility, VIA maintains systems of internal accounting controls, policies and procedures to ensure the reliability of financial information and to safeguard assets. The internal control systems and financial records are subject to reviews by internal auditors and by Raymond, Chabot, Martin, Paré & Partners, during the examination of the financial statements.

The Audit Committee of the Board of Directors meets periodically with the internal and external auditors, and with management to approve the scope of audit work and to assess reports on audit work performed. The financial statements have been reviewed by the Audit Committee and approved by the Board of Directors upon their recommendation.

AUDITORS' REPORT

TO THE HONOURABLE
THE MINISTER OF TRANSPORT

We have examined the balance sheet of VIA Rail Canada Inc. as at December 31, 1985 and the statement of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions of the Corporation that have come under our notice in the course of our examination of the financial statements were, in all material respects, in accordance with Part XII of the Financial Administration Act and regulations thereto, the charter and by-laws of the Corporation and any directive given to the Corporation.

Raymond, Chabot, Martin, Paré & Associates
Chartered Accountants

Montreal, Canada
January 31, 1986

BALANCE SHEET AS AT DECEMBER 31
(in thousands of dollars)

	1985	1984
Current assets		
Cash and short-term deposits	3,896	27,387
Accounts receivable	10,729	9,588
Advance on contracts (Note 3)	4,817	8,432
Receivable from the Government of Canada	173,171	113,765
Materials and supplies	19,481	9,089
	212,094	168,261
Long-term assets		
Properties (Note 4)	678,712	570,452
Deferred charges	7,769	11,123
	686,481	581,575
	898,575	749,836

	1985	1984
Current liabilities		
Accounts payable and accrued liabilities	166,835	131,903
Deferred revenue	5,367	2,873
	172,202	134,776
Long-term liabilities		
Deferred investment tax credits (Note 10)	12,854	10,460
Deferred income taxes (Note 10)	1,727	1,489
	14,581	11,949
SHAREHOLDER'S EQUITY		
Share capital (Note 5)	9,300	9,300
Contributed surplus (Note 6)	700,587	592,829
Retained earnings	1,905	982
	711,792	603,111
	898,575	749,836

Signed on behalf of the Board:

HUGH K. SMITH
Director and Chairman of the Audit Committee

LAWRENCE HANIGAN
Director and Chairman of the Board

VIA RAIL CANADA INC.—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1985	1984
Revenue		
Passenger	201,393	177,041
Contract (Note 2a)	523,602	397,796
Other	4,307	24,046
	729,302	598,883
Expenses		
Operations and maintenance (Note 2b)	465,586	356,847
Customer and support services	166,776	153,061
General and administrative	48,229	52,253
Depreciation and amortization	44,112	32,859
	724,703	595,020
Income before income taxes	4,599	3,863
Income taxes (Note 9)	3,676	4,915
Net income (loss)	923	(1,052)
Retained earnings		
Balance at beginning of year		
As previously reported	6,682	5,108
Prior period adjustment (Note 10)	(5,700)	(3,074)
As restated	982	2,034
Balance at end of year	1,905	982

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1985	1984
Cash provided by (used for) operations		
Net income (loss)	923	(1,052)
Non-cash charges to income		
Depreciation and amortization	44,112	32,859
Deferred income taxes	238	672
Losses on retirement of assets	3,866	430
	49,139	32,909
Changes in working capital		
Accounts receivable	(1,141)	(259)
Materials and supplies	(10,392)	(8,180)
Receivable from the Government of Canada	(59,308)	(65,623)
Accounts payable and accrued liabilities	35,551	11,464
Deferred revenue	2,494	(104)
	(32,796)	(62,702)
Net cash flow from operations	16,343	(29,793)
Cash provided by financing activities		
Capital funding from the Government of Canada	107,758	75,700
Receivable from the Government of Canada	(98)	(48,124)
Deferred investment tax credits	3,438	4,243
	111,098	31,819
Cash invested		
Properties	(151,288)	(149,216)
Deferred charges	(2,640)	(4,433)
Changes in working capital		
Advance on contracts	3,615	14,248
Accounts payable and accrued liabilities	(619)	7,605
	(150,932)	(131,796)
Decrease in cash during the year	(23,491)	(129,770)
Cash at beginning of year*	27,387	157,157
Cash at end of year*	3,896	27,387

*Includes short-term deposits.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1985

1. Accounting policies

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and conform in all material respects with the accounting standards of the International Accounting Standards Committee as they relate to the presentation of historical cost financial information. The significant policies are summarized below:

(a) Revenue recognition

Passenger revenue is recognized when earned. Contract revenue (Note 2a) is recognized on a realized and estimated basis and any changes in the estimates are accounted for in the year of change.

(b) Charges under railway operating agreements

Charges from the contracting railways in respect of the operating agreements (Note 2b) are recorded on an incurred and estimated basis.

These expenditures are subject to adjustment by the Canadian Transport Commission following a review of the actual costs incurred each year by the parties concerned. Adjustments arising from this review are included in the Statement of Income and Retained Earnings in the year in which the resolution occurs.

(c) Materials and supplies

The inventory is valued at weighted average cost for onboard stock, latest invoice price for fuel and new materials in stores, and at estimated utility or sales value for usable second-hand, obsolete and scrap materials.

(d) Properties

Properties, including those acquired under capital leases are recorded at cost. The costs of refurbishing and rebuilding of rolling stock for the first time are capitalized. These costs are incurred to improve and extend the useful life of the assets concerned. The costs of refurbishing and rebuilding of rolling stock, for a second time, except for major renewals, are charged to operations.

(e) Depreciation and amortization

Depreciation and amortization is calculated on a straight-line basis at rates sufficient to write off properties over their estimated useful lives. The estimated useful lives for significant classes of assets are as follows:

Rolling stock	8 to 30 years
Stations and related facilities	20 years
Maintenance buildings	25 years
Machinery, equipment and other fixed assets	3 to 15 years
Office furniture and equipment	3 to 20 years
Leasehold and infrastructure improvements	10 to 38 years

No depreciation is provided for projects in progress.

(f) Deferred charges

Deferred charges are principally comprised of the costs of development of information systems and are being amortized on the straight-line method over periods varying from three to seven years. Accumulated amortization of $27,808,000 (1984—$21,895,000) has been deducted in arriving at the carrying value of the deferred charges.

(g) Leases

Assets recorded under capital leases are amortized on a straight-line basis over the terms of the leases.

All other leases are accounted for as operating leases and the rental costs are accounted for as incurred.

VIA RAIL CANADA INC.—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1985—*Continued*

(h) Deferred investment tax credits

In accordance with the cost reduction approach, investment tax credits are deferred and amortized to income over the estimated useful lives of the related assets.

(i) Pensions

The cost of providing pension benefits is determined by actuarial valuations, which allocate to each year of service the applicable portion of total estimated benefits, based on projections of employees' compensation levels to the time of their retirement.

Current service costs include the portion of estimated benefits attributable to services rendered during the current year and are funded as they accrue.

Past service costs are being funded over periods up to twenty-five years having regard for rates recommended by the actuary and approved by the Superintendent of Insurance.

2. Operating agreements

(a) Railway passenger service contract

The Corporation has entered into an agreement with the Government of Canada to provide services, activities and undertakings relating to the provision, management and operation of railway passenger services in Canada.

The agreement also provides that the Minister of Transport and the Corporation shall enter into Subsidiary Service Request Agreements with respect to specified intercity rail passenger services.

(b) Canadian National Railway Company and Canadian Pacific Limited

The Corporation has operating agreements with the railways for the use of tracks, facilities, train personnel, rolling stock servicing and refurbishing.

During the year, the costs relating to the railway operating agreements net of capital expenditures amounted to $400,777,000 (1984—$341,739,000) and are included in operations and maintenance expense in the Statement of Income and Retained Earnings.

3. Advance on contracts

Advance on contracts represent payments made on capital projects for the construction of maintenance facilities, station upgrading, infrastructure improvements and the purchase of maintenance materials.

4. Properties

	1985	1984
	(in thousands of dollars)	
Land	391	365
Rolling stock	496,751	357,545
Stations and facilities	9,463	233
Maintenance buildings	42,884	
Machinery, equipment and other fixed assets	8,231	3,641
Office furniture and equipment	17,593	15,485
Leasehold and infrastructure improvements	133,481	33,057
	708,794	410,326
Accumulated depreciation and amortization	(120,218)	(86,048)
	588,576	324,278
Projects in progress	90,136	246,174
	678,712	570,452

At December 31, 1985 the gross value of assets under capital leases included in stations and facilities was $5,250,000 and related accumulated amortization thereon amounted to $8,000 (Note 7b).

5. Share capital

	1985	1984
	(in thousands of dollars)	
Authorized		
An unlimited number of common shares of no par value		
Issued and fully paid		
93,000 common shares	9,300	9,300

6. Contributed surplus

Contributed surplus represents amounts received or receivable from the Government of Canada for capital expenditures.

7. Lease obligations and commitments

(a) The future minimum rental payments relating to operating leases are as follows:

	(in thousands of dollars)
1986	14,339
1987	9,253
1988	7,145
1989	6,138
1990	5,885
Subsequent year	343,812
	386,572

A significant portion of the leases are for real estate or rental of computer equipment and services.

(b) During the year, the Corporation acquired certain station properties under capital leases with initial terms of twenty years. Lease payments applicable to the initial terms have been paid in lump sums at the inception of the leases, so consequently, no obligations under capital leases exist.

(c) At December 31, 1985 the Corporation has outstanding commitments mainly relating to the purchase of property and equipment amounting to approximately $63,590,000.

8. Pension plans

(a) The Corporation has retirement benefit plans covering all of its permanent employees, including those transferred during the year from Canadian National Railway Company (Note 11). Under the plans, employees are entitled to benefits at retirement age, based on compensation and length of service.

An actuarial valuation of the pension plans was carried out as at December 31, 1983. Based on this valuation, the unfunded liability in respect of past service costs at December 31, 1985, excluding any such liability pertaining to the foregoing employees transferred to the Corporation during the year, amounted to approximately $21,700,000 (1984—$20,202,000).

VIA RAIL CANADA INC.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1985—*Concluded*

The pension expense charged to operations, determined in accordance with the basis described in Note 1(i), was $4,977,000 (1984—$15,936,000). The 1984 expense of $15,936,000 includes payments of $11,589,000 to meet the recommended contributions up to December 31, 1986 in respect of the unfunded past service liability.

(b) It was agreed that the employees transferred from Canadian National Railway Company during 1985 would be fully protected to the extent of their benefits accrued under the pension plan of their former employer. Negotiations are continuing concerning the amount of funds to be transferred to cover accumulated benefits up to the dates of transfer.

9. Income taxes

The tax allocation basis of accounting for income taxes is followed whereby tax provisions are based on accounting income and taxes relating to timing differences between accounting and taxable income are deferred.

Income taxes are comprised as follows:

	1985	1984
	(in thousands of dollars)	
Current charges	3,438	4,243
Deferred tax increase	238	672
	3,676	4,915

The income tax expense is high in relation to income before income taxes as a result of management's decision to use investment tax credits which have a limited time period for application, as opposed to the use of additional capital cost allowance which can be applied indefinitely to reduce the amount of income tax payable. The tax benefit of the timing differences between capital cost allowances and depreciation and amortization expense which results from this action have not been recognized because of uncertainty as to their realization.

No current income taxes are payable as a result of the application of the investment tax credits in the amount of $3,438,000 (1984—$4,243,000).

10. Prior period adjustment

As indicated in the Corporation's 1984 financial statements, Revenue Canada is auditing the Corporation's taxation returns. While the audit of the taxation returns for the years ended December 31, 1978 to 1984 is not yet complete, a settlement has been mutually agreed to, in which the Corporation would pay no income tax as a result of using $12,906,000 of investment tax credits which have been accounted for using the cost reduction approach.

Accordingly, the balance of retained earnings at January 1, 1985 has been adjusted by $5,700,000 (1984—$2,626,000). This amount represents the cumulative increase in income taxes of $12,906,000 (1984—$4,243,000) offset by the cumulative reversal of deferred income taxes of $4,760,000 (1984—$544,000) and the cumulative amortization to income of $2,446,000 (1984—$1,073,000) of deferred investment tax credits. The portion of the prior period adjustment applicable to years before January 1, 1984 amounts to $3,074,000 and the balance of retained earnings at that date has been adjusted accordingly.

11. Related party transactions

VIA Rail Canada Inc. is a Crown Corporation with all of its issued shares owned by the Government of Canada.

In the normal course of business, the Corporation contracts with other Crown Corporations for services which in 1985 amounted to $361,912,000 (1984—$300,368,000). The amounts payable to these Corporations at December 31, 1985 amounted to $44,787,000 (1984—$12,965,000).

During the year rolling stock maintenance and certain station activities previously conducted under the operating agreement with Canadian National Railway Company referred to in Note 2(b), were transferred under the Corporation's direct control. Pursuant to these arrangements certain inventories and properties were acquired for a total consideration of $10,808,000. The Corporation also acquired the services of approximately 1,460 former employees of Canadian National Railway Company and entered into various operating leases for the rental of real estate on which the maintenance buildings and certain stations and facilities are located.

12. Comparative figures

Certain of the 1984 figures have been reclassified so as to conform with the presentation adopted in 1985, including a revised basis for presenting the Statement of Changes in Financial Position to conform with the new recommendations of the Canadian Institute of Chartered Accountants.

The 1984 figures are based upon financial statements which were reported on by Samson Bélair, Chartered Accountants.

13. Subsequent events

A National Rail Passenger Transportation Act which is expected to be tabled in Parliament shortly will establish a legislative basis for the provision of national and commuter rail passenger transportation services. This legislation will change the Corporation's relationship with the Government of Canada, as well as the two freight railways which control the Corporation's essential right-of-ways.

A contract settlement between the Corporation and the Canadian Brotherhood of Railway, Transport and General Workers covering On-Board Services employees was rejected by the membership. Consequently, as of January 23, 1986, both parties are in a position where a legal work stoppage could occur.

The financial impact of these events cannot be estimated with any certainty at this time.

PART II

CROWN CORPORATIONS AND OTHER CORPORATE INTERESTS

1. INTRODUCTION TO PART II

This Part responds to the provision in the *Financial Administration Act*, paragraph 153(3)(a) that the Report of the President "shall include a list naming, as of a specified date, all Crown corporations and all corporations of which any shares are held by, on behalf of or in trust for the Crown or any Crown corporation."

The information represents the status of Crown corporations and other Canadian government interests as at July 31, 1986, unless otherwise noted.

The individual lists are:

parent Crown corporations and their subsidiaries and associates. These are grouped as:

— **Subsidiaries held at 100%**, if wholly-owned,

— **Subsidiaries held at 50-99%**, if 50 per cent or more of the equity is held by a Crown corporation, or,

— **Associate held at less than 50%** if less than 50 per cent is held. (Generally subsidiaries of subsidiaries are listed only to a second ownership level below the 100% owned category);

Joint Enterprises are those owned by Canada jointly with another government, whether foreign, provincial or municipal;

Mixed Enterprises are those in which ownership is shared by Canada and the private sector;

Other Entities are corporate entities without share capital, for which the Government of Canada, directly or through a Crown corporation, has a right pursuant to statute, articles of incorporation, letters patent or by-law, to appoint one or more members of the board of directors or similar governing body.

International Organizations are entities created pursuant to international agreements by which Canada has a right to appoint or elect members to a governing body.

A statistical summary of the number of entities in each of the lists is presented on the next page.

The reader should note that the descriptions of corporate mandates appearing in this Part are intended to convey the essence of those mandates. They are not legal descriptions. Similarly, the description of the government's objective in making investments in these corporations is meant only as a summarization. For further information, the reader is referred to the special Acts, articles of incorporation, or annual reports of the corporations. The government percentage ownership data displayed are based on the number of voting shares.

2. STATISTICAL SUMMARY

As at July 31, 1986

Crown Corporations

• Parent Crown corporations, including eight corporations which are exempted from Part XII of the FAA	54*
• Wholly-owned subsidiaries	127
TOTAL	181

Crown Corporations' Investments (direct and indirect)

• Subsidiaries held at 50% or more but less than 100%	34
• Associates held at less than 50%	106
TOTAL	140

Joint and Mixed Enterprises

TOTAL	26**

Other Entities

— Entities without share capital	39

International Organizations

— Entities created pursuant to international agreement	13

---

* Includes:

— in process of dissolution

1. Canadian National (West Indies) Steamships Ltd.
2. Canagrex
3. St. Anthony Fisheries Ltd.

** Includes:

— 12 corporations in which the Superintendent of Bankruptcy has received shares in lieu of a cash levy.

3. THE LISTINGS

3.1. PARENT CROWN CORPORATIONS, WHOLLY-OWNED SUBSIDIARIES, OTHER SUBSIDIARIES AND ASSOCIATES

Notes

1. For corporations scheduled in the *Financial Administration Act* (FAA), the relevant schedule is shown in parentheses immediately following the corporation's name.

2. Under the FAA, a subsidiary is a Crown corporation if it is wholly- owned directly or indirectly by one or more parent Crown corporations.

---

1. Air Canada (C-II)

    Subsidiaries held at 100%
    - Air Canada Services Inc.
    - enRoute Card International Inc.
    - enRoute Card Inc.
    - Airtransit Canada
    - Touram Inc.
        - Touram Group Service Inc.

    Subsidiaries held at 50-99%
    - Matac Cargo Ltd. (50%)

    Associates held at less than 50%
    - Aeronautical Radio, Inc. (1 share)
    - Air Cargo Facilities (2.5%)
    - Air Nova (49%)
    - Air Ontario Holdings Inc. (24.5%)
    - Airlines Clearing House Inc. (1 share)
    - Airlines Reporting Corporation (3.3%)
    - Airline Tariff Publishing Co. (6.69%)
    - Global Travel Computer Holdings Ltd. (33.3%)
    - GPA Group Limited (25.98%)
        - Aircraft Finance Limited
        - Air Maple Limited
        - Air Tara Limited
        - Aviation Consultants Limited
        - Elasis B.V.
        - European Expedite Limited
        - GPA Corporation
        - GPA (Europe) Limited
        - GPA Financial Services Limited
        - GPA Insurance Brokers Limited
        - GPA Holdings Limited
        - GPA Leasing (NA) NV
        - GPA Midland Ltd. (51%)
        - GPA Netherlands B.V.
        - Guinness Peat Aviation Asia Limited
        - Guinness Peat Aviation (Belgium) S.A.
        - Guinness Peat Western Limited
        - Transportation Analysis International Limited
        - Irish Aerospace Limited (50%)
        - TAI Limited
        - Westsat Limited (25%)

Innotech Aviation Ltd. (30%)
Cross Canada Flights Ltd. (49%)
Innotech Aviation Nfld. Ltd. (49%)
International Aeradio (Caribbean) Limited (1%)
Société internationale de télécommunications aéronautiques (0.78%)

2. Atlantic Pilotage Authority (C-I)

3. Atomic Energy of Canada Limited (C-I)

4. Bank of Canada (Exempted)

5. Canada Council (Exempted)

6. Canada Deposit Insurance Corporation (C-I)

7. Canada Development Investment Corporation (C-II)

Subsidiaries held at 100%
Canadair Financial Corporation
Canadair Limited
Canadair Challenger Inc.
Canadair International Limited
Canadair Services Limited
Challenger Aviation Service GmbH
Eldorado Nuclear Limited
Eldorado NPI Limited
Eldorado Aviation Limited
Eldorado Resources Limited
119371 Canada Limited
Eldor Resources Limited
Key Lake Mining Corp. (16.6%)
Associates held at less than 50%
Varity Corporation (20%)

8. Canada Harbour Place Corporation (C-I)

9. Canada Lands Company Limited (C-I)

Subsidiaries held at 100%
Canada Lands Company (Mirabel) Limited
Canada Lands Company (Le Vieux-Port de Montréal) Limited
Canada Lands Company (Vieux-Port de Québec) Inc.

10. Canada Mortgage and Housing Corporation (C-I)

11. Canada Museums Construction Corporation Inc. (C-I)

12. Canada Ports Corporation (C-II)

Subsidiary held at 50-99%
Ridley Terminals Inc. (90%)

13. Canada Post Corporation (C-I)

14. Canadian Broadcasting Corporation (Exempted)

Associates held at less than 50%
- Master FM Limited (20%)
- Visnews Limited (33%)
  - News Film Services Limited
  - British Commonwealth International Newsfilm Agency Limited
  - Viscom International (USA) Limited
- Télévision St. François Inc.

15. Canadian Commercial Corporation (C-I)

16. Canadian Dairy Commission (C-I)

17. Canadian Film Development Corporation (Exempted)

18. Canadian Institute for International Peace and Security (Exempted)

19. Canadian Livestock Feed Board (C-I)

20. Canadian National Railway Company (C-II)

Subsidiaries held at 100%
- Autoport Limited
- The Canada and Gulf Terminal Railway Company
- Canadian National Express Company
- The Canadian National Railways Securities Trust
- Canadian National Steamship Company, Limited
- Canadian National Telegraph Company
- The Great North Western Telegraph Company of Canada (94.54%)
- Canadian National Transfer Company Limited
- Canadian National Transportation, Limited
  - Chapman Transport Limited
  - Empire Freightways Limited
  - Royal Transportation Limited
  - Transport Route Canada Inc.
    - Chalut Transport (1974) Inc.
    - Express Dorchester Inc.
- Canat Limited
- CN (France) S.A.
- CNM Inc.
  - Coastal Transport Limited
  - Halifax Industries (Holdings) Limited (33.3%)
  - Lakespan Marine Inc. (50%)
  - Seabase Limited (15%)
- Marine Atlantic Inc. (acting parent Crown corporation)
- CN Tower Limited
- CN Transactions Inc.
  - Canac Consultants Limited
  - Canadian National Hotels (Moncton) Ltd.
  - Canaprev Inc. (50%)
  - Canaven Limited
  - CN Exploration Inc.
  - CN Hotels Inc.
  - East Yard Development Ltd. (50%)
  - The Toronto Terminals Railway Company (50%)
- Grand Trunk Corporation
  - Central Vermont Railway, Inc.
    - Domestic Four Leasing Corporation
  - Domestic Three Leasing Corporation
  - Domestic Two Leasing Corporation
  - Duluth, Winnipeg and Pacific Railway Company

Grand Trunk Land Development Corporation
Grand Trunk Radio Communications, Inc.
Grand Trunk Western Railroad Company
The Belt Railway Company of Chicago (8.33%)
Chicago and Western Indiana Railroad Company (20%)
Trailer Train Company (2.63%)
The Minnesota and Manitoba Railroad Company
The Minnesota and Ontario Bridge Company
Mount Royal Tunnel and Terminal Company, Limited
Northwestel Inc.
Terra Nova Telecommunications Inc.

Subsidiaries held at 50-99%
The Canada Southern Railway Company (50%)
The Canadian Northern Quebec Railway Company (59.7%)
Detroit River Tunnel Company (50%)
EID Electronic Identification Systems Ltd. (50%)
The Northern Consolidated Holding Company Limited (71.9%)
The Public Markets, Limited (50%)
The Quebec and Lake St. John Railway Company (89.1%)
Shawinigan Terminal Railway Company (50%)

Associates held at less than 50%
Compagnie de gestion de Matane Inc. (49%)
Computer Sciences Canada, Ltd. (7.87%)
Dome Consortium Investments Inc. (16.66%)
Eurocanadian Shipholdings Limited (18%)
Fort Point Holdings Ltd. (25%)
Halterm Limited (33.3%)
OCRA Communications Inc. (now Gandalf Systems Group) (5.51%)
Railroad Association Insurance, Ltd. (7.47%)
Telesat Canada (3.75%)

21. Canadian National (West Indies) Steamships, Ltd. (C-I)*

22. Canadian Patents and Development Limited (C-I)

23. Canadian Saltfish Corporation (C-I)

24. Canadian Wheat Board (Exempted)

25. Canagrex (C-I)*

26. Cape Breton Development Corporation (C-I)

Subsidiaries held at 100%
Cape Breton Carbofuels Limited
Darr (Cape Breton) Limited
Dundee Estates Limited

Subsidiaries held at 50-99%
Whale Cove Summer Village Limited (62.5%)

Associates held at less than 50%
Bay Lumber Limited (7%)
Cape Breton Offshore Fabricators Limited (33.3%)
Eastern Carbide Tools Limited (1%)
Haak Conveyor & Manufacturing Limited (42%)

---

* In process of dissolution

Newco Mining Limited (10%)
Sun Mountain Development Limited (Cape Breton Ski Club) (4%)
4 M Panga Hotel Co. Limited (45%)

27. Defence Construction (1951) Limited (C-I)

28. Export Development Corporation (C-I)

29. Farm Credit Corporation (C-I)

30. Federal Business Development Bank (C-I)

31. Freshwater Fish Marketing Corporation (C-I)

32. Great Lakes Pilotage Authority, Ltd. (C-I)

33. Halifax Port Corporation (C-II)

34. Harbourfront Corporation (C-I)

    Subsidiaries held at 100%
        Peter Street Basin Properties Inc.
        630370 Ontario Ltd.
    Subsidiaries held at 50-99%
        Harbourpoint Developments (Harbourfront) Limited
        Art Gallery at Harbourfront (membership interest)
        School-By-the-Water (membership interest)

35. International Centre for Ocean Development (C-I)

36. International Development Research Centre (Exempted)

37. Laurentian Pilotage Authority (C-I)

38. Mingan Associates Ltd. (C-I) (Inactive)

39. Montreal Port Corporation (C-II)

40. National Arts Centre Corporation (Exempted)

41. National Capital Commission (C-I)

42. Northern Canada Power Commission (C-I)

43. Pacific Pilotage Authority (C-I)

44. Petro-Canada (C-II)

    Subsidiaries held at 100%
        Amauligak Explorations Inc.
        Bent Horn Development Inc.
        Canertech Inc.
            Hunter Enterprises Orillia Limited (60%)
            Sparfil International Inc. (49%)
            Valera Electronics Inc. (11.3%)
            Canertech Conservation Inc.
                Canertech Conservation (N.B. - P.E.I.) Inc. (81.6%)

Canertech Conservation (N.S.) Inc. (80%)
Canertech Conservation (Ontario) Inc. (88.9%)
107744 Canada Inc.
Petro-Canada Consulting Corporation
Petro-Canada International Assistance Corporation (acting parent Crown corporation)
Petro-Canada Inc.
Arctic Pilot Project Inc.
Asher American, Inc.
Blakeny and Son (1979) Ltd.
Fifth Pacific Stations Ltd.
GMI Co. (Bahamas) Limited
Independent Fuels & Lumber Ltd.
Joseph Elie Limited
Morrow Fuel Oil Sales Ltd.
Northwest Terminals Ltd.
Opal Oils Limited
Commodore Oils Limited
First Pacific Stations Ltd.
Second Pacific Stations Ltd.
Third Pacific Stations Ltd.
Fourth Pacific Stations Ltd.
Pacific Petrochemicals Limited*
Pacific Petroleums Limited*
Pacific Petroleums (Overseas) Limited
Pacific Pipelines, Inc.
Petro-Canada Hydrocarbons Inc.
Petro-Canada (Barito) Inc.
Petro-Canada Chemicals Inc.
Petro-Canada Drilling Inc.
Petro-Canada Enterprises Inc.*
Petro-Canada Espanola, S.A.
Petro-Canada Norway A/S
Petro-Canada Oil & Gas Inc.
Petro-Canada Petroleum Marketing Inc.
Petro-Canada Petroleum Inc.*
BP Marketing Canada Limited
Depanneurs Le Frigo Ltée.
Chatelaine Restaurants Limited
Saint Laurent Petroleum Inc.
Petro-Canada (U.K.) Limited
Petroleum Transmission Company
Petron Petroleum Limited
Prairie Leaseholds Limited
Rocair Limited
Servico Limitée/Servico Limited
Venezuelan Canadian Oils, C.A.
Venezuelan Pacific Petroleums, C.A.
Xychem Inc.
103912 Canada Inc.
106616 Canada Inc.
106618 Canada Inc.
106619 Canada Inc.
106620 Canada Inc.
106621 Canada Inc.
146923 Canada Ltd.
146924 Canada Ltd.

* In process of dissolution

Subsidiaries held at 50-99%

- Canstar Oilsands Ltd. (50%)
- Keyanaw Oils Sands Limited (50%)
- Les Huiles Du Royaume Inc. (50%)
- Marchand Petroleum (Canada) Inc. (50%)
- Panarctic Oils Ltd. (52.73%)
- Petro-Canada Centre Finance Inc. (50%)
- Petro-Canada Centre Inc. (50%)
- Sedpex Inc. (50%)
- Viatec Resource Systems, Inc. (50%)
- Wapisoo Oils Sands Ltd. (50%)
- 288564 Alberta Ltd. (50%)

Subsidiaries held at less than 50%

- Ducharme & Carbone (1981) Inc. (43.8%)
- Harvey's Oil Limited (49.9%)
- Internationale de Services Industriels et Scientifique, S.A. (27%)
- Les Petroles Sherbrooke Inc. (47%)
- McAsphalte Inc. (49%)
- Marc Dufresne (1978) Inc. (49.99%)
- Northward Development Ltd. (17%)
- Perry Fuels Inc. (49%)
- Petroles de la Mauricie (Canada) Inc. (49.99%)
- Petroles M. Miron Inc. (49.9%)
- Petroles St. Jean Sur Richelieu Inc. (49%)
- Roma Fuels Limited (49%)
- Sulconam Inc. (7.6%)
- Syncrude Canada Ltd. (17%)
- Thermo Page Inc. (49.9%)
- Town & Country Fuels (1980) Inc. (49%)
- Westcoast Transmission Company Ltd. (31.2%)
- 113989 Canada Ltd. (49.9%)
- 128963 Canada Inc. (49%)
- 139741 Canada Ltée. (49%)

Subsidiaries held at less than 5% (other interests)

- Campbell Resources Inc.
- Cheyenne Petroleum Corp. (NPL)
- Cynthia Gas Gathering Company
- International Standard Resources Ltd.
- Manhattan Continental Dev. Corp.
- Mascot Gold Mines Ltd.
- New Nadina Explorations Ltd.
- Nova, An Alberta Corporation
- Pacific Energy Resources Ltd.
- Pacific Northern Gas
- Peace Pipe Line Ltd.
- Petrogas Processing Ltd.
- Polar Gas Engineering Services Ltd.
- Redwater Water Disposal Co.
- Riley's Data Share
- Rimbey Pipe Line Co. Ltd.
- Sultran Ltd.
- Wardean Drilling Co. Limited
- 204383 Enterprises Inc.

45. Port of Quebec Corporation (C-II)

46. Prince Rupert Port Corporation (C-II)

47. Royal Canadian Mint (C-I)

48. Standards Council of Canada (C-I)

49. St. Anthony Fisheries Limited (C-I)*

50. St. John's Port Corporation (C-II)

51. The St. Lawrence Seaway Authority (C-I)

    Subsidiaries held at 100%
        The Jacques Cartier and Champlain Bridges Incorporated
        The Seaway International Bridge Corporation, Ltd.

52. Teleglobe Canada (C-II)

    Subsidiaries held at 100%
        Teleglobe Canada Limited

53. Vancouver Port Corporation (C-II)

54. VIA Rail Canada Inc. (C-I)

    Associates held at less than 50%
    Railroad Association Insurance, Ltd. (4%)

3.2 JOINT AND MIXED ENTERPRISES

These are enterprises with share capital owned jointly with other governments and/or other organizations to further common objectives.

Note: Subsidiaries and associates are not listed.

1. Canada Development Corporation

2. Canarctic Shipping Company Limited

3. Cooperative Energy Corporation

4. Lower Churchill Development Corporation Limited

5. Mohawk St. Régis Lacrosse Ltd. (inactive)

6. Nanisivik Mines Limited

7. National Sea Products Ltd.

8. Newfoundland and Labrador Development Corporation Limited

9. North Portage Development Corporation

10. NPM Nuclear Project Managers Canada Inc.

11. N.S. Holdco Ltd.

---

* In process of dissolution

12. Société Inter-Port de Québec

13. Telesat Canada

14. 125459 Canada Ltd.

Under terms of the *Bankruptcy Act*, the Superintendent of Bankruptcy has received shares in the following corporations:

15. Prestige Poultry Products Ltd.

16. Mount Nansen Mines Ltd.

17. Geoform Designs Inc.

18. Captain Scotts Fish & Chips (1978) Ltd.

19. Romfield Building Corporation Ltd.

20. Dreco Energy Services

21. International Hydrodynamics Co. Ltd.

22. Wilanour Resources Ltd.

23. Blake Resources

24. Totran Services Ltd.

25. House of Brougham Ltd.

26. Equity Capital Investments Ltd.

3.3 OTHER ENTITIES

These are entities without share capital for which the Government of Canada has a right to appoint members to the boards of directors or similar governing bodies.

1. Agricultural Products Board

2. Asia-Pacific Foundation of Canada

3. The Army Benevolent Fund

4. Association for the Export of Canadian Books

5. The Blue Water Bridge Authority

6. Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children

7. Buffalo and Fort Erie Public Bridge Authority

8. Calgary Olympic Development Association

9. Canadian Fitness and Lifestyle Research Institute Inc. (Canada Fitness Survey)

10. Canada Grains Council

11. The Canadian Co-operative Implements Limited

12. Canadian International Grains Institute

13. Coaching Association of Canada

14. Forest Engineering Research Institute of Canada

Harbour Commissions

15. Fraser River Harbour Commission

16. The Hamilton Harbour Commissioners

17. Thunder Bay Harbour Commission

18. Nanaimo Harbour Commission

19. North Fraser Harbour Commission

20. Oshawa Harbour Commission

21. Port Alberni Harbour Commission

22. The Toronto Harbour Commissioners

23. Windsor Harbour Commission

24. Hockey Canada Inc.

25. International Fisheries Commissions Pension Society

26. Last Post Fund

27. Medical Council of Canada

28. National Parks Citizens Committee Inc.

29. The Nature Trust of British Columbia

30. National Sport and Recreation Centre, Inc.

31. Oo-Za-We-Kwun Centre Inc. (inactive)

32. PARTICIPaction

33. POS Pilot Plant Corporation

34. Roosevelt Campobello International Park Commission

35. Saint John Harbour Bridge Authority

36. Terry Fox Humanitarian Award Inc.

37. The Vanier Institute of the Family

38. Western Grains Research Foundation

39. XV Winter Games Organizing Committee (OCO'88)

3.4 INTERNATIONAL ORGANIZATIONS

Entities created pursuant to international agreements where Canada has a right to appoint or elect members to a governing body.

1. African Development Bank
2. African Development Fund
3. Asian Development Bank
4. Caribbean Development Bank
5. Commonwealth War Graves Commission
6. Inter American Development Bank
7. International Bank for Reconstruction and Development
8. International Boundary Commission
9. International Development Association
10. International Finance Corporation
11. International Fund for Agricultural Development
12. International Joint Commission
13. International Monetary Fund

APPENDIX 'A'

Additions/Deletions to Part II Listings
July 31, 1985 — July 31, 1986

Name	Change	Notes
106617 Canada Inc.	Deleted	Petro-Canada
123627 Canada Inc.	Deleted	Petro-Canada
146923 Canada Ltd.	Added	Petro-Canada
146924 Canada Ltd.	Added	Petro-Canada
630370 Ontario Ltd.	Added	Harbourfront
Air Nova	Added	Air Canada
Air Ontario Holdings Inc.	Added	Air Canada
Aircraft Finance Limited	Added	Air Canada
Amauligak Exploration Inc.	Added	Petro-Canada
Aquilla Holdings Ltd.	Deleted	Petro-Canada
Arctic Islands Resources Ltd.	Deleted	Petro-Canada
Big Eagle Oil & Gas Ltd.	Deleted	Petro-Canada
BP Home Comfort Limited	Deleted	Petro-Canada
Cal-Jet Holdings Limited	Deleted	Petro-Canada
Canadian Arsenals Limited	Deleted	Sold
Canadian General Atomic Corporation Limited	Deleted	Canada Development Investment Corporation
Canarch Limited	Deleted	Canada Development Investment Corporation
Dreco Energy Services	Added	Superintendent of Bankuptcy
The de Havilland Aircraft of Canada Limited	Deleted	Sold
de Havilland Canada, Inc.	Deleted	Sold
Dome Consortium Investment Inc.	Added	Canadian National Railways
enRoute Card International Inc.	Added	Air Canada
European Expedite Limited	Added	Air Canada
Express Dorchester Inc.	Added	Canadian National Railways
Footwear and Leather Institute	Deleted	Regional Industrial Expansion
GPA Holdings Limited	Added	Air Canada
GPA Netherlands B.V.	Added	Air Canada
GPA Spacecon Limited	Deleted	Air Canada
Guinness Peat Aviation (Belgium) S.A.	Added	Air Canada
Intercast S.A.	Deleted	Canadian National Railways
Les Entreprises Buissières Ltée	Deleted	Canadian National Railways
Les Huiles Desroches Inc.	Deleted	Petro-Canada
L.M. Petroleum Inc.	Deleted	Petro-Canada
Loto Canada Inc.	Deleted	Dissolved
Morrow Fuel Oil Sales Ltd.	Added	Petro-Canada
Marine Atlantic Inc.	Added	Canadian National Railways — formerly CN Marine Ltd.
National Parks Citizens Committee Inc.	Added	Created 1983 — omitted from previous listing
Northwest Terminals Ltd.	Added	Petro-Canada
NPM Nuclear Project Managers Canada Inc.	Added	Created 1982 — omitted from previous listing
Pêcheries Atlantique du Québec Inc.	Deleted	Sold
Pêcheries Canada Inc.	Deleted	Sold
Pêcheries Cartier Inc.	Deleted	Sold
Pêcheries Maritime de Gaspé	Deleted	Sold
Peter Street Basin Properties Inc.	Added	Harbourfront
Petro-Canada (Barito) Inc.	Added	Petro-Canada
Petro-Canada Hydrocarbons Inc.	Added	Petro-Canada

Name	Change	Notes
Petro-Canada Products Inc.	Deleted	Petro-Canada
Petro-Canada Resources Inc.	Deleted	Petro-Canada
Prairie Minerals Limited	Deleted	Petro-Canada
Railroad Association Insurance, Ltd.	Added	Canadian National Railways
Railroad Association Insurance, Ltd.	Added	Rail Canada Inc.
Servico Limitée/Servico Limited	Added	Petro-Canada
Sixpro Inc.	Deleted	Sold
Societa a responsibilita limitata Immobiliare San Sebastiano	Deleted	Dissolved
TAI Limited	Deleted	Air Canada (now Transportation Analysis International Limited)
Télévision St. François Inc.	Added	Canadian Broadcasting Corporation
Transportation Analysis International Limited	Added	Air Canada (formerly TAI Limited)
Trecan Limited	Deleted	Petro-Canada
Tri-Mountain Petroleum Ltd.	Deleted	Petro-Canada
Uranium Canada Limited	Deleted	Dissolved
Value Serve Stations Limited	Deleted	Petro-Canada
Varity Corporation	Added	Share restructuring of Massey-Ferguson Ltd., May 9, 1986
Westsat Limited	Added	Air Canada
XV Winter Games Organizing Committee (OCO '88)	Added	Created 1982 — omitted from previous listing

4. CORPORATE INFORMATION

4.1 JOINT (J) AND MIXED (M) ENTERPRISES—CORPORATIONS WITH SHARE CAPITAL OWNED JOINTLY WITH OTHER GOVERNMENTS AND/OR OTHER ORGANIZATIONS

Name of Corporation	Type	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End Total Assets (A)/ Liabilities (L)	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage*
Canada Development Corporation	M	Suite 200 444 Yonge Street Toronto, Ontario M5B 2H4	Minister of State for Privatization	1971, Canada Development Corporation Act, Superseded by 1985 Canada Development Corporations Reorganization Act	December 31/85 A = $7,259.0M L = $5,739.0M	Thorne Ernst & Whinney	To develop and maintain strong Canadian controlled and managed corporations in the private sector; to widen the investment opportunities open to Canadians; to operate profitably and in the best interest of all the shareholders.	45.8%
Canarctic Shipping Company Limited	M	350 Sparks Street Suite 809 Ottawa, Ontario K1R 7S8	Transport	1975, Canada Corporations Act	December 31/85 A = $36.8M L = $4.3M	Coopers & Lybrand	To acquire, sell, lease, charter and otherwise deal in and with ships of every description, and to do all other things necessary or incidental thereto.	51%
Cooperative Energy Corporation	M	2000 Trans Canada Pipelines Tower 530-8 Avenue S.W. Calgary, Alta. T2P 3S8	Energy, Mines and Resources	1982, Cooperative Energy Act	December 31/85 A = $212.4M L = $94.0M	Touche, Ross & Co.	To operate an energy corporation whose primary activity is to explore and develop new Canadian oil and gas resources./To bring together a number of co-operative financial, agricultural, service and marketing institutions to participate in the Canadian oil and gas industry.	25%
Lower Churchill Development Corporation Limited	J	P.O. Box 9100 St. John's, Nfld. A1A 2X8	Energy, Mines and Resources	1970, Companies Act of Nfld.	December 31/85 A = $30.2M L = $12,000	Clarkson Gordon & Co.	To establish a basis for the development of all or part of the hydroelectric potential of the Lower Churchill basin and the transmission of this energy to markets.	49%
Mohawk St. Régis Lacrosse Ltd.	M	c/o Honeywell, Wotherspoon 500-90 Sparks Street Ottawa, Ontario K1P 5B4	Indian Affairs and Northern Development	1975, Business Corporations Act of Ontario	August 31/83 A = $17,844 L = $260,491	(inactive)	To acquire assets of an insolvent lacrosse stick manufacturing company located on St. Regis Reserve, Cornwall Island.	(inactive)
Nanisivik Mines Limited	M	20 Toronto Street 12th Floor Toronto, Ontario M5C 2B8	Indian Affairs and Northern Development	1974, Companies Act of Alberta	March 31/86 A = $64.8M L = $11.6M	Touche, Ross & Co.	To test the feasibility of mining lead and zinc in the Canadian Arctic, providing jobs for the Inuit and to have a Canadian presence in the Arctic.	18%

* Federal Percentage of Ownership calculation is based on number of votes

National Sea Products Ltd.	M	1959 Upper Water St. Halifax, N.S. B3J 3B7	Regional Industrial Expansion	1953, Nova Scotia Companies Act	December 28/85 A = $252.1M L = $203.6M	Clarkson, Gordon & Co.	The processing and marketing of fish, seafoods and fish by-products ./ Restructuring the Atlantic fisheries.	20%
Newfoundland and Labrador Development Corporation Limited	J	136 Crosbie Road Viking Building St. John's, Nfld. A1B 3K3	Regional Industrial Expansion	1973, Newfoundland Companies Act	March 31/86 A = $31.9M L = $31.9M	Coopers & Lybrand	To assist small- and medium-sized businesses in Newfoundland and Labrador through loan and equity financing, management advisory services, and other related services.	40%
North Portage Development Corporation	J	1100-444 St. Mary Ave Winnipeg, Man. R3C 3T1	Regional Industrial Expansion	The 1983 Manitoba Corporations Act	March 31/86 A = $51.0M L = $2.6M	Coopers & Lybrand	To foster the social and economic development of the North Portage area in the core area of Winnipeg./Under the Special Recovery Capital Projects, stimulating economic recovery in Canada and Manitoba.	33.3%
NPM Nuclear Project Managers Canada Inc.	M	620 Dorchester Blvd. West Montreal, P.Q. H3B 1N8	Energy, Mines and Resources	1982, Canada Business Corporations Act	March 31/86 A = $489,275 L = $484,904	None Appointed	Nuclear Project and Construction Management./To transfer this activity to the private sector.	13.34%
N.S. Holdco Ltd.	M	c/o Cox, Downie Goodfellow Suite 1100 1959 Upper Water Street Halifax, N.S. B3J 3E5	Regional Industrial Expansion	1983, Canada Business Corporations Act, continued under the 1984, Nova Scotia Companies Act	December 31/85 A = $108.0M L = $3,336	Ernst & Whinney	To hold the assets owned by Canada and the Bank of Nova Scotia./Restructuring the Atlantic fisheries.	32.5%
Société Inter-Port de Québec	J	Suite 802 1126, chemin St-Louis Place Sillery Sillery, Quebec G1S 1E5	Regional Industrial Expansion	1974, Special Act of the Government of Quebec	March 31/86 A = $4.8M L = $58,977	Poissant Richard, Thorne Riddell & Co.	To develop and implement plans and programs for an industrial complex, using the infrastructure of the Quebec harbour, and contributing to the development of that same infra- structure.	40%
Telesat Canada	M	333 River Road Vanier, Ontario K1L 8B9	Communications	1969, Telesat Canada Act	December 31/85 A = $354.7M L = $204.9M	Peat, Marwick, Mitchell & Co.	To establish multi-purpose satellite telecommunication systems.	50%*
125459 Canada Ltd.	M	c/o Cox, Downie Goodfellow Suite 1100 1959 Upper Water Street Halifax, N.S. B3J 3E5	Regional Industrial Expansion	1983, Canadian Business Corporations Act	December 31/85 A = $200.4M L = $88.6M	Ernst & Whinney	Holds shares in Fishery Products International Ltd./Restructuring the Atlantic fisheries.	62.6%

* Her Majesty in right of Canada

Notes

Under terms of the *Bankruptcy Act*, the Superintendent of Bankruptcy has received shares in the following corporations in lieu of a cash levy payable to the Crown:

Prestige Poultry Products Ltd.
Mount Nansen Mines Ltd.
Geoform Designs Inc.
Captain Scotts Fish & Chips (1978) Ltd.
Romfield Building Corporation Ltd.
Dreco Energy Services
International Hydrodynamics Co. Ltd.
Wilanour Resources Ltd.
Blake Resources
Totran Services Ltd.
House of Brougham Ltd.
Equity Capital Investments Ltd.

4.2 Other Entities—Entities Without Share Capital for which the Government of Canada has a right to appoint Members to the Boards of Directors

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage
Agricultural Products Board	Room 775 Sir John Carling Bldg. Ottawa, Ontario K1A 0C5	Agriculture	1951, Agricultural Products Board Act	March 31	Auditor General of Canada	To buy, sell or import agricultural products. It may purchase and hold commodities for later sale, emergency relief in Canada or assistance programs abroad.	N/A
Asia-Pacific Foundation of Canada	Room 666 999 Canada Place Vancouver, B.C. V6E 3E1	Secretary of State for External Affairs	1984, An Act to incorporate Asia-Pacific Foundation of Canada	June 30	Coopers and Lybrand	To develop closer ties between the peoples and institutions of Canada and the peoples and institutions of the Asia-Pacific region.	N/A
Army Benevolent Fund	Veterans Affairs Bldg. 284 Wellington St. Ottawa, Ontario K1A 0P4	Veterans Affairs	1947, Army Benevolent Fund Act	March 31	Auditor General of Canada	To provide grants and other financial assistance to Second World War veterans, or their dependants./Profits from services operated for the benefit of the Canadian Army during the war were allocated to the Army Benevolent Fund for disbursement.	N/A
Association for the Export of Canadian Books	P.O. Box 349 Station "A" Ottawa, Ontario K1N 8Z3	Communications	1972, Canada Corporations Act	March 31	Robert B. Shortly	To assist in expanding the export of Canadian published books.	N/A
The Blue Water Bridge Authority	Bridge Street Point Edward Ontario N7T 7H7	Transport	1964, Blue Water Bridge Authority Act	August 31	William J. Hipple	To hold, operate, maintain and repair the Canadian portion of the Blue Water Bridge which links Point Edward, Ontario, and Port Huron, Michigan, USA, across the St. Clair River.	N/A
Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children	Queen Elizabeth II Canadian Research Fund Jeanne Mance Bldg Tunney's Pasture Ottawa, Ontario K1A 0W9	National Health and Welfare 1	1959, Queen Elizabeth II Canadian Research Fund Act	March 31	Auditor General of Canada	The furthering of research into the diseases of children and the prevention and cure of such diseases.	N/A
Buffalo and Fort Erie Public Bridge Authority	The Peace Bridge Peace Bridge Plaza, Buffalo, N.Y. 14213 U.S.A.	Finance	1934, An Act to incorporate Buffalo Public and Fort Erie Bridge Authority	December 31	Arthur Young & Co.	To construct, maintain and operate a bridge across the Niagara River between Buffalo, New York and Fort Erie, Ontario.	N/A
Calgary Olympic Development Association	560 Bow Valley Square 4 250 6th Ave. S.W. Calgary, Alberta T2P 3H7	National Health and Welfare 2	1979, Societies Act of Alberta	March 31	Vennard, Johannesen and Co.	To foster the development of Canadian athletics; to administer the Olympic Endowment Funds; and to operate and maintain the Canada Olympic Park.	N/A

1 The directors of the Board are "appointed by Her Majesty by Commission under the Great Seal".

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage
Canadian Fitness and Lifestyle Research Institute Inc. (Canada Fitness Survey)	506-294 Albert St. Ottawa, Ontario K1P 6E6	National Health and Welfare	1980, Canada Corporations Act	March 31	Deloitte, Haskins and Sells	To collect, interpret and disseminate information pertaining to the fitness levels of Canadians.	N/A
Canada Grains Council	Suite 760 360 Main Street Winnipeg, Manitoba R3C 3Z3	Minister of State for the Canadian Wheat Board	1969, Canada Corporations Act	March 31	Thorne, Riddell & Co.	To provide a forum in which Council members representing all facets of the grain industry could discuss mutual problems, study particular issues and provide advice to the government.	N/A
The Canadian Co-operative Implements Limited	56-1313 Border St. Winnipeg, Manitoba R3H 0X4	Agriculture	1940, Dominion Companies Act	October 31	Touche Ross and Co.	To carry on the business of manufacturing, production, distributing, importing, exporting, leasing, buying, selling (both at wholesale and retail) assembling, exchanging and dealing in implements, machinery equipment, tools, goods, wares and merchandise of every kind and description.	N/A
Canadian International Grains Institute	1000-303 Main St. Winnipeg, Manitoba R3C 3G7	Minister of International Trade	1972, Canada Corporations Act	March 31	Deloitte, Haskins & Sells	To offer courses in grain technology and handling to influential foreign participants in the field to develop existing and potential markets abroad for Canadian grains and oilseeds./ Promotional tool for the export of Canadian grain, oilseeds and products.	N/A
Coaching Association of Canada	333 River Road B-10 Vanier, Ontario K1L 8H9	National Health and Welfare	1970, Canada Corporations Act	March 31	Clarkson, Gordon and Co.	To provide programs, services and publications to improve coaching effectiveness throughout Canada.	N/A
Forest Engineering Research Institute of Canada	143 Place Frontenac Pointe Claire, Que. H9R 4Z7	Agriculture	1974, Canada Corporations Act	December 31	Touche, Ross & Co.	To carry out research and development projects to demonstrate practical measures for increasing the efficiency of wood harvesting in Canada.	N/A
Fraser River Harbour Commission	Suite 505 713 Columbia Street New Westminster, B.C. V3M 1B2	Transport	1913, New Westminster Harbour Commissioners Act	December 31	Thorne, Riddell & Co.	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
The Hamilton Harbour Commissioners	605 James Street North Hamilton, Ontario L8L 1K1	Transport	1912, Hamilton Harbour Commissioners Act	December 31	Spicer, McGillivray & Co.	To regulate and control navigation and all works and operations within the harbour.	N/A

2 Two directors appointed by the Minister of State, Fitness and Amateur Sport who has received delegated authority from the Minister of Health and Welfare.

Hockey Canada Inc.	c/o Olympic Saddledome P.O. Box 1060 Calgary, Alberta T2P 2K8	National Health and Welfare	1969, Canada Corporations Act	March 31	Clarkson, Gordon & Co.	To support national hockey teams representing Canada in international competition and to support generally the playing of hockey in Canada.	N/A
International Fisheries Commissions Pension Society	c/o Treasury Board of Canada Vanier Bldg. 222 Nepean Street Ottawa, Ontario K1A 0R5	Fisheries and Oceans	1970, Canada Corporations Act	September 30	Auditor General of Canada	To arrange for and administer the provision of pensions and insurance for the employees of any international fisheries commission, whose seat or headquarters is in any country established and maintained by Canada or the U.S., or both.	N/A
Thunder Bay Harbour Commission	P.O. Box 2266 Thunder Bay, Ontario P7B 5E8	Transport	1958, Lakehead Harbour Commissioners Act	December 31	Clarkson, Gordon & Co.	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
Last Post Fund	Suite 921 685 Cathcart St. Montreal, Que. H3B 1M7	Veterans Affairs	1922, Federal Charter	March 31	Francois Bourgault	To ensure that qualified veterans receive dignified burials.	N/A
Medical Council of Canada	1867 Alta Vista Dr. P.O. Box 8234 Ottawa, Ontario K1G 3H7	National Health and Welfare	1912, Canada Medical Act	December 31	Ernst & Whinney	To promote and effect the establishment of a qualification in medicine, such that the holders thereof shall be acceptable and empowered to practice in all the provinces of Canada.	N/A
Nanaimo Harbour Commission	P.O. Box 131 104 Front Street Nanaimo, B.C. V9R 5K4	Transport	1960, Harbour Commissions Act	December 31	Bestwick and Partners	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
National Parks Citizens Committee Inc.	c/o Dr. G. Kristiänson 14 Bastien Square Victoria, B.C. V8W 1H9	Environment	1983, Canada Corporations Act	March 31	Clarkson, Gordon & Co.	To educate Canadians regarding the national parks of Canada.	N/A
The Nature Trust of British Columbia	909-100 Park Royal South West, Vancouver, B.C. V7T 1A2	Prime Minister	1971, Canada Corporations Act	December 31	Thorne Riddell & Co.	To purchase and preserve ecologically important parcels of land in B.C.	N/A
National Sport and Recreation Centre, Inc.	333 River Road Vanier, Ontario K1L 8H9	National Health and Welfare	1974, Canada Corporations Act	March 31	Peat, Marwick, Mitchell & Co.	To assist organizations concerned with the development of Canadian sport and recreation by providing support services in the area of administration and promotion.	N/A
North Fraser Harbour Commission	2020 Airport Road Richmond, B.C. V7B 1C6	Transport	1913, North Fraser Harbour Commissioners Act	December 31	Dunwoody & Co.	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage
Oo-Za-We-Kwun Centre Inc.	c/o Frank E. Price and Associates Suite 105 62 Margrove Street Winnipeg, Manitoba R3C 1N1	Indian Affairs and Northern Development	1971, Manitoba Companies Act	March 31	(Inactive)	To provide training for Native people (inactive).	N/A
Oshawa Harbour Commission	1050 Farewell Ave. Oshawa, Ontario L1H 6N6	Transport	1961, Oshawa Harbour Commissions Act	December 31	K.R. Craven	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
PARTICIPaction	40 Dundas St. West Suite 220 Toronto, Ontario M5G 2C2	National Health and Welfare	1971, Canada Corporations Act	March 31	Peat, Marwick, Mitchell and Co.	To inform Canadians about the positive benefits of physical fitness and to motivate them to adopt healthy, physically active lifestyles.	N/A
POS Pilot Plant Corporation	118 Veterinary Rd. Saskatoon, Sask. S7K 2R4	Minister of State for the Canadian Wheat Board	1973, Canada Corporations Act	March 31	Peat, Marwick, Mitchell & Co.	To increase processing of grains and oilseeds into marketable products./To encourage and promote the development and increase of value-added agricul- turally based products for domestic and export consumptions.	N/A
Port Alberni Harbour Commission	P.O. Box 99 2750 Harbour Road Port Alberni, B.C. V9Y 7M6	Transport	1947, Harbour Commissions Act	December 31	Newman Hill, Duncan & Lacoursièr	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
Roosevelt Campobello International Park Commission	P.O. Box 9 Welshpool Campobello Island N.B. E0G 3H0	Secretary of State for External Affairs	1964, The Roosevelt Campobello International Park Commission Act	December 31	Brooks and Carter	To administer as a memorial the Roosevelt Campobello International Park.	N/A
Saint John Harbour Bridge Authority	P.O. Box 6176 Station A Saint John, N.B. E2L 4R6	Finance	1962, Statute passed by Province of N.B.	March 31	Touche, Ross & Co.	To construct a bridge across the Harbour of Saint John, and to enter into agreement with federal, provincial and municipal governments, persons or corporations respecting the financing and construction of such bridge.	N/A
Terry Fox Humanitarian Award Inc.	711-151 Sparks St. Ottawa, Ontario K1P 5E3	National Health and Welfare	1982, Canada Corporations Act	April 30	Touche, Ross & Co.	To encourage Canadian youth to seek high ideals as represented by Terry Fox by granting commemorative scholarships.	N/A
The Toronto Harbour Commissioners	60 Harbour Street Toronto, Ontario M5J 1B7	Transport	1911, Toronto Harbour Commissionners Act	March 31	Thorne, Riddell & Co.	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A

The Vanier Institute of the Family	120 Holland Ave. Ottawa, Ontario R1X 0X6	Prime Minister	1965, Canada Business Corporations Act	December 31	Coopers & Lybrand	To promote the spiritual and material well-being of Canadian families and to study their social, physical, mental, moral and financial environment and characteristics.	N/A
Western Grains Research Foundation	111 Sparks Street Ottawa, Ontario K1P 5BS	Agriculture	1981, Canada Corporations Act	December 31	G.A. Welch and Company	To help with improving the productivity and profitability of grains and oilseeds production in the prairie provinces.	N/A
Windsor Harbour Commission	500 Riverside Dr. West Windsor, Ontario N9A 5K6	Transport	1957, Windsor Harbour Commissioners Act	December 31	Peat, Marwick & Mitchell	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
XV Winter Games Organizing Committee (OCO'88)	P.O. Box 1988 Station C Calgary, Alberta	National Health and Welfare[1]	1982, Canada Corporations Act	March 31	Coopers & Lybrand	To raise, receive and maintain a fund in support of the XV Olympic Games/To support the planning and staging of the XV Olympic Games.	N/A

1. Federal appointment is made by the Minister of State for Fitness and Amateur Sport.

4.3 International Organizations—Entities Created Pursuant to International Agreements to which Canada has a Right to Appoint or Elect Members to a Governing Body

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage
African Development Bank	01 P.O. Box 1387 Abidjan 01 Côte d'Ivoire Africa	Secretary of State for External Affairs	1963, Agreement signed by members countries	December 31	Akintola Williams & Co.	To contribute to the acceleration of economic development of the member countries, individually and collectively. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	3.2%
African Development Fund	01 P.O. Box 1387 Abidjan 01 Côte d'Ivoire Africa	Secretary of State for External Affairs	1972, Agreement signed by members countries	December 31	Deloitte, Haskins & Sells	To assist the African Development Bank in making an increasingly effective contribution to the economic and social development of the Bank members. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	9.9%
Asian Development Bank	P.O. Box 789 Manila, The Philippines	Secretary of State for External Affairs	1965, Agreement signed by member countries	December 31	Deloitte, Haskins & Sells	To lend funds, promote investments and provide technical assistance to developing countries, and generally, to foster economic growth in the Asian Region. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	6.5%
Caribbean Development Bank	P.O. Box 408 Wildey, St. Michael Barbados	Secretary of State for External Affairs	1969, Agreement signed by member countries	December 31	Price, Waterhouse & Co.	To contribute to the harmonious economic growth and development of the member countries and integration among them, having special and urgent regard to the needs of the less developed members of the region. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	14.9%
Commonwealth War Graves Commission	2 Marlow Road Maidenhead, Berks. U.K. Sl6 7DX	Veterans Affairs	1917, Royal Charter	March 31	Deloitte Haskins & Sells	To mark and maintain graves and memorials and keep records of the members of the Forces of the Commonwealth who died in the two World Wars.	N/A
Inter American Development Bank	808-17th St., N.W. Washington, D.C. U.S.A. 20577	Secretary of State for External Affairs	1959, Agreement signed by member countries	December 31	Price, Waterhouse & Co.	To contribute to the acceleration of the process of economic development of the member countries, individually and collectively. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	2.3%
International Bank for Reconstruction and Development	1818 H Street, N.W. Washington, D.C. U.S.A. 20433	Finance	1945, Bretton Woods Agreement Act	June 30	Price, Waterhouse & Co.	To assist in the reconstruction and development of territories of member countries.	3.4%

International Boundary Commission	615 Booth Street Ottawa, Ontario K1A 0E9	Secretary of State for External Affairs	1908, Treaty 1960, International Boundary Commission Act	March 31	Auditor General of Canada	To keep the boundary vista entirely free of obstruction and plainly marked for the proper enforcement of customs, immigration, fishing and other laws of Canada and the U.S. The Commission is concerned with fixing things on the boundary line or near it, not with movement across it.	N/A
International Development Association	1818 H Street, N.W. Washington, D.C. U.S.A. 20433	Finance	1960, Articles of Agreement; 1960, International Development Association Act	June 30	Price Waterhouse & Co.	To promote economic development, increase productivity and thus raise standards of living in the less-developed areas of the world.	3.3%
International Finance Corporation	1818 H Street N.W. Washington, D.C. U.S.A. 20433	Finance	1956, Articles of Agreement; Vote 731, Appropriation Act No. 6, 1956	June 30	Price Waterhouse & Co.	To further economic development by encouraging the growth of productive enterprise in member countries, supplementing the activities of the International Bank for Reconstruction and Development.	3.5%
International Fund for Agricultural Development	107 Via Del Serafico 00142 Rome, Italie	Secretary of State for External Affairs	1976, International Agreement	December 31	Price, Waterhouse & Co.	To mobilize additional resources to be made available on concessional terms for agricultural development in member states. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	N/A
International Joint Commission	100 Metcalfe St. Ottawa, Ontario K1P 5M1	Secretary of State for External Affairs	1909, Boundary Waters Treaty Act	March 31	Auditor General of Canada	To deal with the use, obstruction and diversion of boundary waters and rivers crossing the boundary between Canada and the U.S.	N/A
International Monetary Fund	700 19th St., N.W. Washington, D.C. U.S.A. 20431	Finance	1945, Agreement Signed by Member Countries	April 30	External Audit Committee	Established to promote economic welfare by encouraging the expansion of trade, the maintenance of orderly exchange arrangements, and the reduction of balance of payments.	N/A